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ABSTRACT

This guide is intended for use in teaching a course in entrepreneurship that is geared toward high school seniors. Specifically, the materials included in the guide have been designed to be incorporated into business and office education and marketing education courses. The guide consists of a list of the tasks necessary for a person to be successful in an entrepreneurial endeavor, a suggested course format (including suggested instructional times to be allotted for each), 50 instructor's guide sheets, and a resource list. Each instructor's guide sheet includes objectives, suggested teaching strategies, a list of recommended resources, evaluation techniques, suggested student organization activities, and an instructor's final checklist to use in teaching about each task. The following topics are among those covered on the task sheets: determining risks that must be assumed by entrepreneurs; conducting market research; identifying potential clientele; implementing advertising strategies; identifying types of small business ownership; developing a business plan for a small business; developing a home-based business; and determining sources of credit and financial support; maintaining financial records; and identifying laws and regulations affecting small business. (MN)

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Enterpreneurship Education Instructor's Manual

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A number of individuals provided input into the preparation of this document. Their contributions are gratefully appreciated.

Forty-one persons, including entrepreneurs; university business instructors; and Business and Office and Marketing Education teachers, teacher educators, and state department personnel participated in the validation of the task list. Without their responses, the remainder of the project would not have been possible.

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INTRODUCTION

Need for the Manual

The American dream of personal economic freedom and the satisfaction of doing it on your own is known as the "entrepreneurial spirit." Nearly everyone since the beginning of our country's time has at sometime had this dream. In 1982 the Department of Education estimated that 97 percent of all U.S. businesses were classified as small. For some, these businesses satisfied their entrepreneurial dreams. For others, small business ownership turned into a nightmare, as over one-half of all entrepreneurial efforts fail. This economic and emotional loss can be stemmed by providing small business information to individuals interested in becoming entrepreneurs.

With emphasis on preparing for work or a career, secondary vocational education, and particularly Business and Office Education and Marketing Education, is a logical place to provide entrepreneurship education. The youth organizations related to these programs provide outlets for practical experiences in entrepreneurship.

Development and Organization of the Manual

With these points in mind, entrepreneurship education curriculum materials were developed for one-semester and one-year Business and Office Education and Marketing Education courses. The courses were designed to be taken by any high school senior. Materials that were determined to be most useful to assist teachers in developing these new courses in their schools were as follows: (1) list of tasks necessary for a person to be successful in an entrepreneurial endeavor, (2) format for courses, including suggestions of instructional time to allot for each, (3) instructor's guide sheets with objectives, teaching strategies, resources, evaluation techniques, suggested student organization activities, and instructor's final checklists to use in teaching about each task, and (4) resource list. The materials are presented in this order in the Manual. All were developed according to the Kentucky curriculum format. A description of each follows.

Task List

The basis for content for the entrepreneurship education courses is a task list for entrepreneurs. A preliminary task list was generated by project personnel and validated by 41 persons, including entrepreneurs, university business instructors, and Business and Office and Marketing Education teachers, teacher educators, and state department personnel. The task list was refined based on feedback from validators. Teachers can use the task list with administrators, advisory council members, parents, and students to communicate entrepreneurship education course content.

Format for Courses

Format for one-semester and one-year courses was developed using the tasks as the organizational framework. Tasks to be taught in each course are listed, along with a suggestion of the hours of instructional time to allot to each.

Instructor's Guide Sheets

An Instructor's Guide Sheet is included for each task. Guide Sheets have objectives, attitude/value to be developed, teaching strategies, resources, suggested evaluation techniques, suggestions to youth organizations for related activities, and Instructor's Final Checklists. Specific information about each of these follows.

Objectives. Some tasks have one objective, while others have two. If there are two objectives, the first is to be taught in the one-semester course; both objectives are to be included in a one-year course.

Attitude/Value to be Developed. Behavioral change is highly related to the degree to which an individual values new information studied. Because of this, each task has a statement of attitude/value it is hoped the student will adopt as the information for each task is presented.

Teaching Strategies. Suggestions for teaching strategies are presented. Teachers should be entrepreneurs when using these suggestions. Innovation and creativity, two keys to successful entrepreneurship, will also serve as keys to successfully teaching it.

Because of concerned expressed about basic skill acquisition of American children in recent reports on public school education, care was taken to make sure that all tasks had one or more strategies that reinforce basic skill development. Many strategies require students to read, write, and/or use mathematics. However, consideration will need to be given to the various academic needs of students, and strategies should be selected and adapted accordingly. Information on how to address students with special needs is located on pp. 326-332.

Resources. Some of the strategies involve special materials. These are listed opposite the strategy in the column titled Resources.

Some of the materials listed in the column are included in the Manual; the page number where each is located is indicated. These materials are on the pages that follow the task for which they are cited.

Other materials in the Resources column are commercial or published works. More detailed information about these is included in the Resource List at the end of the Manual. Some of these have been cited frequently in the Guide Sheets. Because of this, teachers may be interested in securing them if the books are not already a part of their classroom collection. They are as follows: Hutt, Roger W., Creating a New Enterprise; Nelson, Robert E., et al., Owning and Operating a Small Business; Samson, Harland E., et al., Retail Merchandising; and Siropolis, Nicholas C., Small Business Management.

Suggested Evaluation Technique. There is an evaluation technique for each objective. For tasks for which there are two objectives, techniques are numbered to correspond to the respective objectives.

In some instances, answers for evaluation activities are at the bottom of the evaluation activity page. Teachers will need to cover the answers when they duplicate these pages.

Suggestion to Student Organization for Related Activity. There is a minimum of one student organization activity for each task. Each activity can be done independently. However, a project might be planned in which the student organization suggestions for several tasks could be implemented. If there is no student organization, the activities in this section could be used as teaching strategies.

Instructor's Final Checklist. Following each Instructor's Guide Sheet is an Instructor's Final Checklist. The Checklist is to be used as a record of student accomplishment of the objectives on the Instructor's Guide Sheet.

Resource List

Bibliographic and other information useful in securing materials listed in the Manual is included in the Resource List. At the end of the Resources List, some supplemental materials are mentioned. These are materials that were not incorporated as resources in the Instructor's Guide Sheets, but may be desired by teachers who wish to expand their entrepreneurship education library. Some items listed in the supplemental materials section would be useful to teachers in conducting student organization activities in the area of entrepreneurship.

ENTREPRENEURSHIP EDUCATION TASK LIST

ENT-001 - Define Entrepreneurship

ENT-002 - Determine Risks of Entrepreneurs

ENT-003 - Determine Personal Qualities Needed for Successful Entrepreneurship

ENT-004 - Differentiate Between Successful and Unsuccessful Small Business Operations

ENT-005 - Differentiate Between Private Enterprise and Other Economic Systems

ENT-006 - Conduct Market Research

ENT-007 - Investigate Sources of Help and Advice

ENT-008 - Investigate Local/Area Business Trends

ENT-009 - Identify Impact of Small Business Trends on State/National/International Business

ENT-010 - Identify Potential Clientele

ENT-011 - Implement Advertising Strategies

ENT-012 - Identify Types of Small Business Ownership

ENT-013 - Determine Pros and Cons of Starting a New Business and Buying an Existing Business

ENT-014 - Obtain Licenses and Permits

ENT-015 - Develop a Business Plan for Small Business

ENT-016 - Select a Location

ENT-017 - Select a Facility

ENT-018 - Develop a Home-Based Business

ENT-019 - Decide to Lease or Buy an Existing Facility or to Lease or Buy a Custom Designed Facility

ENT-020 - Prepare Financial Statements

ENT-021 - Determine Capital Needs

ENT-022 - Identify Sources of Financing

ENT-023 - Compare Financing

ENT-024 - Select a Financial Institution

ENT-025 - Establish a Recordkeeping System

ENT-026 - Complete In-House Report Forms

ENT-027 - Compute Breakeven Point

ENT-028 - Control Cash Flow

ENT-029 - Establish Credit Policies

ENT-030 - Identify Laws and Regulations Affecting Small Business

ENT-031 - Complete Tax Forms

ENT-032 - Be a Responsible Entrepreneur

ENT-033 - Determine Inventory Needs

ENT-034 - Select Suppliers

ENT-035 - Determine Order Placement Guidelines and Place Orders

ENT-036 - Determine Receiving Guidelines and Receive Orders

ENT-037 - Determine Reorder Procedure

ENT-038 - Identify Inventory Methods and Complete Forms

ENT-039 - Price Products/Services

ENT-040 - Determine Procedures for Hiring and Develop an Application Form

ENT-041 - Develop an Employee Manual

ENT-042 - Determine Types of Training for Employees and Select Methods of Training Instruction

ENT-043 - Determine Hiring Policies and Interview Prospective Employees

ENT-044 - Write Policy Procedure

ENT-045 - Write Job Descriptions

ENT-046 - Know Employee Rights and Responsibilities

ENT-047 - Determine the Benefits of Organization Membership

ENT-048 - Develop Time Management Skills

ENT-049 - Evaluate and Select Computer Soft/Hardware Options for Small Business

ENT-050 - Develop Effective Communication in Small Business

SUGGESTED FORMAT FOR COURSES

One Semester Course

	Tasks	Hours
ENT-001	Define entrepreneurship.	3
ENT-002	Determine risks of entrepreneurs.	3
ENT-003	Determine personal qualities needed for successful entrepreneurship.	3
ENT-004	Differentiate between successful and unsuccessful small business operations.	2
ENT-005	Differentiate between private enterprise and other economic systems.	3
ENT-007	Investigate sources of help and advice.	2
ENT-008	Investigate local/area business trends.	2
ENT-010	Identify potential clientele.	2
ENT-011	Implement advertising strategies.	2
ENT-012	Identify types of small business ownership.	4
ENT-013	Determine pros and cons of starting a new business and buying an existing business.	3
ENT-014	Obtain licenses and permits.	2
ENT-015	Develop a business plan for small business.	4
ENT-016	Select a location.	3
ENT-017	Select a facility.	3
ENT-019	Decide to lease or buy an existing facility or to lease or buy a custom designed facility.	3
ENT-020	Prepare financial statements.	3
ENT-022	Identify sources of financing.	2
ENT-025	Establish a recordkeeping system.	3
ENT-029	Establish credit policies.	4
ENT-030	Identify laws and regulations affecting small business.	2
ENT-032	Be a responsible entrepreneur.	3
ENT-033	Determine inventory needs.	2
ENT-034	Select suppliers.	2
ENT-035	Determine order placement guidelines and place orders.	3
ENT-036	Determine receiving guidelines and receive orders.	2
ENT-038	Identify inventory methods and complete forms.	2
ENT-040	Determine procedures for hiring and develop an application form.	3
ENT-042	Determine types of employee training and select methods of training instruction.	2
ENT-043	Determine hiring policies and interview prospective employees.	3
ENT-046	Know employee rights and responsibilities.	3
ENT-049	Evaluate and select computer soft/hardware options for small business.	2
ENT-050	Develop effective communication in small business.	2

One Year Course

	Tasks	Hours
ENT-001	Define entrepreneurship.	3
ENT-002	Determine risks of entrepreneurs.	3
ENT-003	Determine personal qualities needed for successful entrepreneurship.	3
ENT-004	Differentiate between successful and unsuccessful small business operations.	2
ENT-005	Differentiate between private enterprise and other economic systems.	3
ENT-006	Conduct market research.	4
ENT-007	Investigate sources of help and advice.	5
ENT-008	Investigate local/area business trends.	4
ENT-009	Identify impact of small business trends on state/national/international business.	3
ENT-010	Identify potential clientele.	2
ENT-011	Implement advertising strategies.	6
ENT-012	Identify types of small business ownership.	4
ENT-013	Determine pros and cons of starting a new business and buying an existing business.	3
ENT-014	Obtain licenses and permits.	2
ENT-015	Develop a business plan for small business.	4
ENT-016	Select a location.	3
ENT-017	Select a facility.	3
ENT-018	Develop a home-based business.	3
ENT-019	Decide to lease or buy an existing facility or to lease or buy a custom designed facility.	5
ENT-020	Prepare financial statements.	7
ENT-021	Determine capital needs.	4
ENT-022	Identify sources of financing.	2
ENT-023	Compare financing.	2
ENT-024	Select a financial institution.	2
ENT-025	Establish a recordkeeping system.	3
ENT-026	Complete in-house report forms.	4
ENT-027	Compute breakeven point.	4
ENT-028	Control cash flow.	4
ENT-029	Establish credit policies.	4
ENT-030	Identify laws and regulations affecting small business.	2
ENT-031	Complete tax forms.	4
ENT-032	Be a responsible entrepreneur.	3
ENT-033	Determine inventory needs.	2
ENT-034	Select suppliers.	2
ENT-035	Determine order placement guidelines and place orders.	5
ENT-036	Determine receiving guidelines and receive orders.	4
ENT-037	Determine reorder procedure.	2
ENT-038	Identify inventory methods and complete forms.	4
ENT-039	Price products/services.	3
ENT-040	Determine procedures for hiring and develop an application form.	5
ENT-041	Develop an employee manual.	4

	Tasks	Hours
ENT-042	Determine types of employee training and select methods of training instruction.	5
ENT-043	Determine hiring policies and interview prospective employees	3
ENT-044	Write policy procedure.	3
ENT-045	Write job descriptions.	3
ENT-046	Know employee rights and responsibilities.	3
ENT-047	Determine benefits of organization membership.	3
ENT-048	Develop time management skills.	4
ENT-049	Evaluate and select computer soft/hardware options for small business.	5
ENT-050	Develop effective communication in small business.	5

INSTRUCTOR'S GUIDE SHEETS

DEFINING ENTREPRENEURSHIP

OBJECTIVE

Given a list of statements about entrepreneurship, check with 100% accuracy those which describe it.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of knowing the definition of entrepreneurship in identifying this type of business.

TEACHING STRATEGIES	RESOURCES
Have students read materials which provide definitions of entrepreneurship.	Brown and Warner, Economics of Our Free Enterprise System, pp. 268-275. Cooper, "Entrepreneurship: Starting a New Business." Drucker, Innovation and Entrepreneurship, pp. 21-29, 33. Hutt, Creating a New Enterprise, pp. 1-8. Klewer and Luter, Career Planning in the Private Enterprise System, pp. 28-30. Petersen and Lewis, Free Enterprise Today, pp. 86-90. Siropolis, Small Business Management, pp. 4-18, 34-37.
Have students list entrepreneurial business ventures about which they have read or have personal knowledge.	
Have students differentiate between products and services.	Hutt, Creating a New Enterprise, pp. 5-8.
Provide students with worksheets on the characteristics of entrepreneurship.	Hutt, Creating a New Enterprise, pp. 12-16. Klewer and Luter, Career Planning in the Private Enterprise System, pp. 32-33.

Identify current business periodicals which might include information on entrepreneurship (see Business Periodicals listing in resource section). Have each student select an entrepreneurship article from a periodical and report to the class.

Invite a panel of entrepreneurs to discuss and answer questions concerning entrepreneurship.

SUGGESTED EVALUATION TECHNIQUE

Have students complete the Describing Entrepreneurship Checklist (p. 5) with 100% accuracy.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Invite local entrepreneurs to present a chapter program on their business ventures.

Show the filmstrip "The World of the Entrepreneur."

SUGGESTED EVALUATION TECHNIQUE
ENT-001

DESCRIBING ENTREPRENEURSHIP CHECKLIST

DIRECTIONS: Read each of the statements listed below. Place a check (✓) before the ones describing entrepreneurship.

____ 1. Entrepreneurs own their businesses.

____ 2. Entrepreneurial ventures seldom fail.

____ 3. Risk taking is an important part of entrepreneurship.

____ 4. All entrepreneurs are alike.

____ 5. Entrepreneurship involves innovation, investment, and expansion.

____ 6. The most difficult aspect of beginning a small business is financing the venture.

____ 7. Many small businesses are begun to provide products and services to industry.

____ 8. Even though entrepreneurship is increasingly popular, there are more large corporately owned businesses than small businesses in the U.S.

____ 9. Entrepreneurs make money by providing themselves with large salaries.

____ 10. Entrepreneurship has increased among males but not among females.

Answers: 1, 3, 5, 6, 7

Instructor's Final Checklist

DEFINING ENTREPRENEURSHIP

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student completed a checklist describing entrepreneurship with 100% accuracy	☐	☐	☐

DETERMINING RISKS OF ENTREPRENEURS

OBJECTIVE

Without the use of resources, accurately name five areas of a small business feasibility checklist and accurately identify one entrepreneurial risk related to each.

ATTITUDE/VALUE TO DE DEVELOPED

The student will appreciate the importance of conducting a feasibility study to determine entrepreneurial risks.

TEACHING STRATEGIES	RESOURCES
Have students read materials on entrepreneurial risks.	Brown and Warner, Economics of Our Free Enterprise System, pp. 86-88.
	Drucker, Innovation and Entrepreneurship, pp. 28-29, 126-129, 130.
	Kentucky Competency Based Vocational Education Module ES-31, "Going Into Business for Yourself," Instruction Sheet 2.
	Small Business Administration, "Checklist for Going Into Business" and "Thinking About Going Into Business."
	Siropolis, Small Business Management, pp. 567-571.
Have students complete a checklist to help them determine entrepreneurial risks. Guide students in recognizing the risks involved in each area of the checklist.	Activity Sheet, "Feasibility Checklist for Starting a Small Business," pp. 9-13.

SUGGESTED EVALUATION TECHNIQUE

Have students accurately name five areas of a small business feasibility checklist and accurately identify one entrepreneurial risk related to each.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Prior to the ENT-001 Student Organization Activity, write out questions relating to the risks of entrepreneurial ventures for the participants to address.

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SBA

Feasibility Checklist for Starting a Small Business

By Dr. Janelle C. Ashley
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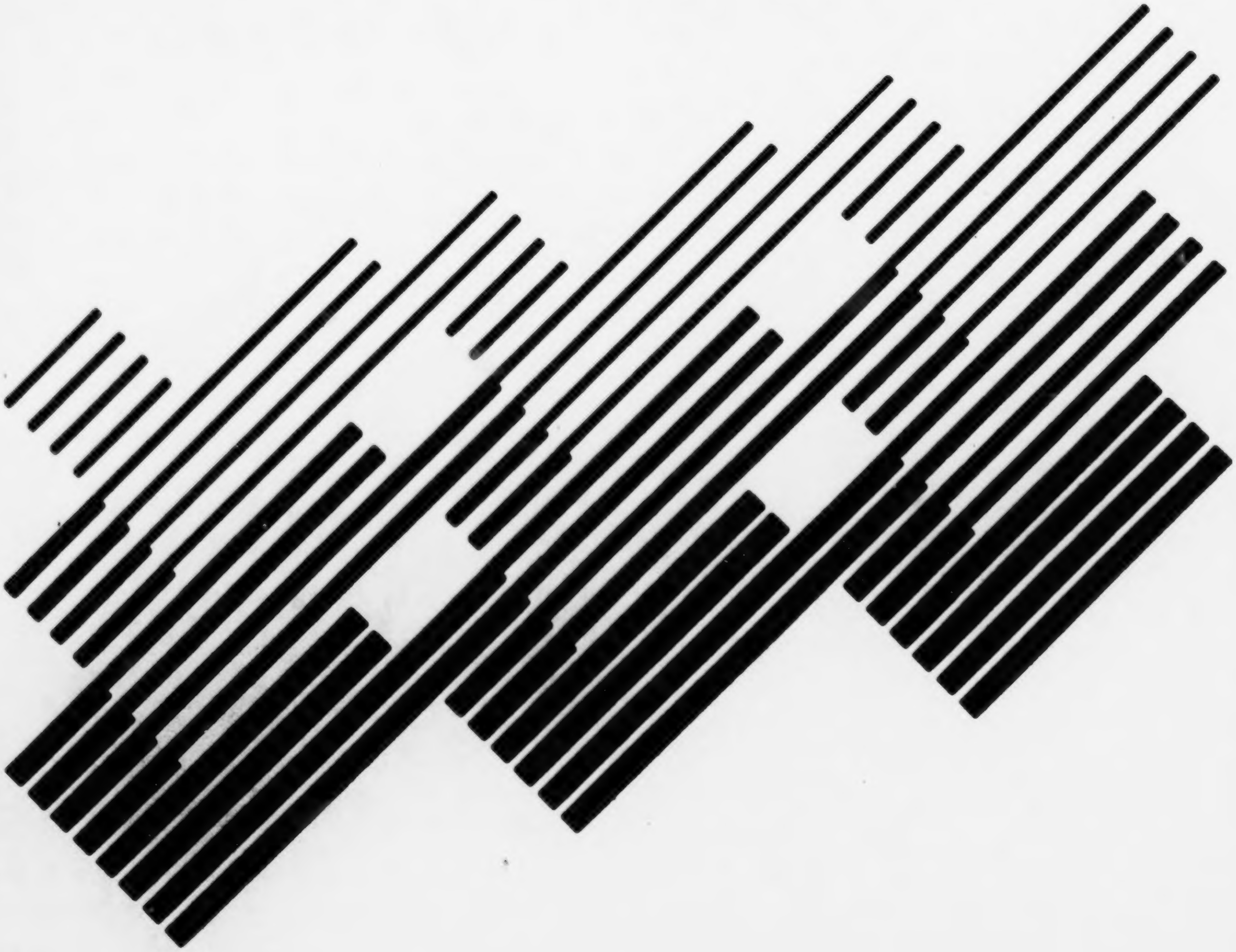
Nacogdoches, Texas
And By Dr. Danny R. Arnold
Associate Professor of Marketing
Mississippi State University
Mississippi State, Mississippi



Summary

This AID is a checklist for the owner/manager of a small business enterprise or for one contemplating going into business for the first time. The questions concentrate on areas you must consider seriously to determine if your idea represents a real business opportunity and if you really know what you are getting into. You can use it to evaluate a completely new venture proposal or an apparent opportunity in your existing business.

Perhaps the most crucial problem you will face after expressing an interest in starting a new business or capitalizing on an apparent opportunity in your existing business will be determining the feasibility of your idea. Getting into the right business at the right time is simple advice, but advice that is extremely difficult to implement. The high failure rate of new businesses and products indicates that very few ideas result in successful business ventures, even when introduced by well established firms. Too many entrepreneurs strike out on a business venture so convinced of its merits that they fail to thoroughly evaluate its potential.

This checklist should be useful to you in evaluating a business idea. It is designed to help you screen out ideas that are likely to fail *before* you invest extensive time, money, and effort in them.

Preliminary Analysis

A feasibility study involves gathering, analyzing and evaluating information with the purpose of answering the question: "Should I go into this business?" Answering this question involves first a preliminary assessment of both personal and project considerations.

General Personal Considerations

The first seven questions ask you to do a little introspection. Are your personality characteristics such that you can both adapt to and enjoy small business ownership/management?

	Yes	*No*
1. Do you like to make your own decisions?	___	___
2. Do you enjoy competition?	___	___
3. Do you have will power and self-discipline?	___	___
4. Do you plan ahead?	___	___
5. Do you get things done on time?	___	___
6. Can you take advise from others?	___	___
7. Are you adaptable to changing conditions?	___	___

The next series of questions stress the physical, emotional, and financial strains of a new business.

8. Do you understand that owning your own business may entail working 12 to 16 hours a day, probably six days a week, and maybe on holidays?	___	___
9. Do you have the physical stamina to handle a business?	___	___
10. Do you have the emotional strength to withstand the strain?	___	___
11. Are you prepared to lower your standard of living for several months or years?	___	___
12. Are you prepared to lose your savings?	___	___

Specific Personal Considerations

1. Do you know which skills and areas of expertise are critical to the success of your project?	___	___
2. Do you have these skills?	___	___
3. Does your idea effectively utilize your own skills and abilities?	___	___
4. Can you find personnel that have the expertise you lack?	___	___
5. Do you know why you are considering this project?	___	___
6. Will your project effectively meet your career aspirations?	___	___

The next three questions emphasize the point that very few people can claim expertise in all phases of a feasibility study. You should realize your personal limitations and seek appropriate assistance where necessary (i.e., marketing, legal, financial).

7. Do you have the ability to perform the feasibility study?	___	___
8. Do you have the time to perform the feasibility study?	___	___
9. Do you have the money to pay to have the feasibility study done?	___	___

General Project Description

1. Briefly describe the business you want to enter. ___
____

2. List the products and/or services you want to sell. ____

3. Describe who will use your products/services. ____

4. Why would someone buy your product/service? ____

5. What kind of location do you need in terms of type of neighborhood, traffic count, nearby firms, etc.? ____

6. List your product/services suppliers. ____

7. List your major competitors—those who sell or provide like products/services ____

8. List the labor and staff you require to provide your products/services. ____

Requirements for Success

To determine whether your idea meets the basic requirements for a successful new project, you must be able to answer at least one of the following questions with a "yes."

	Yes	*No*
1. Does the product/service/business serve a presently unserved need?	___	___
2. Does the product/service/business serve an existing market in which demand exceeds supply?	___	___
3. Can the product/service/business successfully compete with existing competition because of an "advantageous situation," such as better price, location, etc?	___	___

Major Flaws

A "Yes" response to questions such as the following would indicate that the idea has little chance for success.

	Yes	*No*
1. Are there any causes (i.e., restrictions, monopolies, shortages) that make any of the required factors of production unavailable (i.e., **unreasonable cost**, scarce skills, energy, material, equipment, processes, technology, or personnel)?	___	___
2. Are capital requirements for entry or continuing operations excessive?	___	___
3. Is adequate financing hard to obtain?	___	___
4. Are there potential detrimental environmental effects?	___	___
5. Are there factors that prevent effective marketing?	___	___

Desired Income

The following questions should remind you that you must seek both a return on your investment in your own business as well as a reasonable salary for the time you spend in operating that business.

1. How much income do you desire? ____
2. Are you prepared to earn less income in the first 1-3 years? ____
3. What minimun income do you require? ____
4. What financial investment will be required for your business? ____
5. How much could you earn by investing this money? ____
6. How much could you earn by working for someone else? ____
7. Add the amounts in 5 and 6. If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income just to be your own boss with only the prospects of more substantial profit/income in future years? ____
8. What is the average return on investment for a business of your type? ____

Preliminary Income Statement

Besides return on investment, you need to know the income and expenses for your business. You show profit or loss and derive operating ratios on the income statement. Dollars are the (actual, estimated, or industry average) amounts for income and expense categories. Operating ratios are expressed as percentages of net sales and show relationships of expenses and net sales.

For instance $50,000 in net sales equals 100% of sales income (revenue). Net profit after taxes equals 3.14% of net sales. The hypothetical "X" industry average after tax net profit might be 5% in a given year for firms with $50,000 in net sales. First you estimate or forecast income (revenue) and expense dollars and ratios for your business. Then compare your estimated or actual performance with your industry average. Analyze differences to see why you are doing better or worse than the competition or why your venture does or doesn't look like it will float.

These basic financial statistics are generally available for most businesses from trade and industry associations, government agencies, universities, and private companies and banks (Dun & Bradstreet, Robert Morris Associates, Accounting Corporation of America, National Cash Register Company, Bank of America, Federal Trade Commission, and Securities and Exchange Commission).

Forecast your own income statement. Do not be influenced by industry figures. Your estimates must be as accurate as possible or else you will have a false impression.

1. What is the normal markup in this line of business, i.e., the dollar difference between the cost of goods sold and sales, expressed as a percentage of **sales?** ______
2. What is the average cost of goods sold percentage of sales? ______
3. What is the average inventory turnover, i.e., the number of times the average inventory is sold each year? ______
4. What is the average gross profit as a percentage of sales? ______
5. What are the average expenses as a percentage of sales? ______
6. What is the average net profit as a percent of sales? ______
7. Take the preceding figures and work backwards using a standard income statement format and determine the level of sales necessary to support your desired income level. ______
8. From an objective, practical standpoint, is this level of sales, expenses and profit attainable? ______

ANY SMALL BUSINESS, INC.
Condensed Hypothetical Income Statement
For year ending December 31, 19___

Item	Amount		Ratio Percent
Gross sales	$773.888		
Less returns, allowances, and cash discounts	14.872		
Net sales		$759.016	100.00
Cost of goods sold		589.392	77.65
Gross profit on sales		$169.624	22.35
Selling expenses	41.916		5.52
Administrative expenses	28.010		3.69
General expenses	50.030		6.59
Financial expenses	5.248		0.69
Total expenses		125.204	16.50
Operating profit		44.420	5.85
Extraordinary expenses		1.200	0.16
Net profit before taxes		$43.220	5.69
Federal, state, and local taxes		19.542	2.57
Net profit after taxes		$23.678	3.12

Market Analysis

The primary objective of a market analysis is to arrive at a realistic projection of sales. After answering the following questions you will be in a better position to answer question eight immediately above.

Population

1. Define the geographical areas from which you can realistically expect to draw customers. ______
2. What is the population of these areas? ______
3. What do you know about the population growth trend in these areas? ______
4. What is the average family size? ______
5. What is the age distribution? ______
6. What is the per capita income? ______
7. What are the consumers' attitudes toward business like yours? ______
8. What do you know about consumer shopping and spending patterns relative to your type of business? ______
9. Is the price of your product/service especially important to your target market? ______
10. Can you appeal to the entire market? ______
11. If you appeal to only a market segment, is it large enough to be profitable? ______

Competition

1. Who are your major competitors? ______
2. What are the major strengths of each? ______
3. What are the major weaknesses of each? ______
4. Are you familiar with the following factors concerning your competitors:

Price structure? ______
Product lines (quality, breadth, width)? ______
Location? ______
Promotional activities? ______
Sources of supply? ______
Image from a consumer's viewpoint? ______

5. Do you know of any new competitors? ______
6. Do you know of any competitor's plans for expansion? ______
7. Have any firms of your type gone out of business lately? ______
8. If so, why? ______
9. Do you know the sales and **market share** of each competitor? ______
10. Do you know whether the sales and market share of each competitor are increasing, decreasing, or stable? ______
11. Do you know the profit levels of each competitor? ______

12. Are your competitors' profits increasing, decreasing, or stable? ____________________

13. Can you compete with your competition? ________

Sales

1. Determine the total sales volume in your market area. ____________________

2. How accurate do you think your forecast of total sales is? ____________________

3. Did you base your forecast on concrete data? ______

4. Is the estimated sales figure "normal" for your market area? ____________________

5. Is the sales per square foot for your competitors above the normal average? ____________________

6. Are there conditions, or trends, that could change your forecast of total sales? ____________________

7. Do you expect to carry items in inventory from season to season, or do you plan to mark down products occasionally to eliminate inventories? If you do not carry over inventory, have you adequately considered the effect of mark-down in your pricing? (Your gross profits margin may be too low.) ____________________

8. How do you plan to advertise and promote your product/service/business? ____________________

9. Forecast the share of the total market that you can realistically expect—as a dollar amount and as a percentage of your market. ____________________

____

10. Are you sure that you can create enough competitive advantages to achieve the market share in your forecast of the previous question? ____________________

11. Is your forecast of dollar sales greater than the sales amount needed to guarantee your desired or minimun income? ____________________

12. Have you been optimistic or pessimistic in your forecast of sales? ____________________

13. Do you need to hire an expert to refine the sales forecast? ____________________

14. Are you willing to hire an expert to refne the sales forecast? ____________________

Supply	Yes	No
1. Can you make a list of every item of inventory and operating supplies needed?	___	___
2. Do you know the quantity, quality, technical specifications, and price ranges desired?	___	___
3. Do you know the name and location of each potential source of supply?	___	___
4. Do you know the price ranges available for each product from each supplier?	___	___
5. Do you know about the delivery schedules for each supplier?	___	___
6. Do you know the sales terms of each supplier?	___	___
7. Do you know the credit terms of each supplier?	___	___
8. Do you know the financial condition of each supplier?	___	___
9. Is there a risk of shortage for any critical materials or merchandise?	___	___
10. Are you aware of which supplies have an advantage relative to transportation costs?	___	___
11. Will the price available allow you to achieve an adequate markup?	___	___

Expenses

1. Do you know what your expenses will be for: rent, wages, insurance, utilities, advertising, interest, etc?

2. Do you need to know which expenses are Direct, Indirect, or Fixed?

3. Do you know how much your overhead will be?

4. Do you know how much your selling expenses will be?

Miscellaneous		
1. Are you aware of the major risks associated with your product? Service? Business?	___	___
2. Can you minimize any of these major risks?	___	___
3. Are there major risks beyond your control?	___	___
4. Can these risks bankrupt you? (fatal flaws)	___	___

Venture Feasibility		
1. Are there any major questions remaining about your proposed venture?	___	___
2. Do the above questions arise because of a lack of data?	___	___
3. Do the above questions arise because of a lack of management skills?	___	___
4. Do the above questions arise because of a "fatal flaw" in your idea?	___	___
5. Can you obtain the additional data needed?	___	___
6. Can you obtain the additional managerial skills needed?	___	___
7. Are you aware that there is less than a 50-50 chance that you will be in business two years from now?	___	___

Instructor's Final Checklist

DETERMINING RISKS OF ENTREPRENEURS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately named five areas of a small business feasibility checklist	☐	☐	☐
The student accurately identified one entrepreneurial risk related to each area	☐	☐	☐

Instructor's Guide Sheet ENT-003

DETERMINING PERSONAL QUALITIES NEEDED FOR SUCCESSFUL ENTREPRENEURSHIP

OBJECTIVE

Given a list of personal qualities, check with 100% accuracy those needed for successful entrepreneurship. State one reason for each choice.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of determining the personal qualities which make entrepreneurial ventures more appropriate.

TEACHING STRATEGIES	RESOURCES
Have students read materials on personal qualities needed for successful entrepreneurship. Lead a discussion on the suggestions of the various resources.	Drucker, Innovation and Entrepreneurship, pp. 25-26, 139-140, 170-173. Hanson, Entrepreneurship: A Career Alternative, pp. 5-10. Hutt, Creating a New Enterprise, pp. 21-24. Klewer and Luter, Career Planning in the Private Enterprise System, pp. 30-31. Kentucky Competency Based Vocational Education Module ES-31, "Going Into Business for Yourself," Instruction Sheet 1. Petersen and Lewis, Free Enterprise Today, pp. 86-89. Siropolis, Small Business Management, pp. 37-44. Small Business Administration, "Checklist for Going Into Business."
Have students complete a personal inventory to determine their entrepreneurial characteristics.	Small Business Administration, "Checklist for Going Into Business."

Have students relate characteristics for successful entrepreneurship. Have them explain if they feel they could be successful entrepreneurs.

SUGGESTED EVALUATION TECHNIQUE

Provide students with a list of personal qualities (p. 17). Have them check with 100% accuracy those needed for successful entrepreneurship and state one reason for each choice.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Interview local/area entrepreneurs and nonentrepreneurs. Compare their personal qualities and report the findings at a meeting.

SUGGESTED EVALUATION TECHNIQUE
ENT-003

DETERMINING PERSONAL ENTREPRENEURIAL QUALITIES

DIRECTIONS: Read each of the personal qualities listed below. Place a check (✓) before those which would be helpful for successful entrepreneurship. For each quality checked, write out a reason for its selection in the space below it.

____ 1. Is a natural born follower.

____ 2. Possesses a willingness to take risks.

____ 3. Is self-conscious.

____ 4. Is a quitter.

____ 5. Is healthy and energetic.

____ 6. Is a problem solver.

____ 7. Is an expert in one phase of the business venture.

____ 8. Is able to perform without approval of others.

____ 9. Enjoys experimentation.

____ 10. Has no desire to make money.

____ 11. Works on a definite time schedule.

____ 12. Thinks as would his/her customer.

Answers: 2, 5, 6, 8, 9, 12

Instructor's Final Checklist

DETERMINING PERSONAL QUALITIES NEEDED FOR SUCCESSFUL ENTREPRENEURSHIP

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student completed a checklist on entrepreneurial qualities with 100% accuracy	☐	☐	☐
The student accurately stated a reason for choosing each quality	☐	☐	☐

Instructor's Guide Sheet ENT-004

DIFFERENTIATING BETWEEN SUCCESSFUL AND UNSUCCESSFUL SMALL BUSINESS OPERATIONS

OBJECTIVE

Given descriptions of small business operations, determine with 100% accuracy an aspect of each business that would have an input on its future success.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of understanding the difference between successful and unsuccessful business operations.

TEACHING STRATEGIES	RESOURCES
Have students read materials on criteria for successful small business operation.	Drucker, Innovation and Entrepreneurship, pp. 31-32, 115-116, 126, 143-146, 168-169, 188, 251. Klewer and Luter, Career Planning in the Private Enterprise System, pp. 11-13. Siropolis, Small Business Management, pp. 490-491.
Have students interview local/area business people on their concepts of small business success.	
Have students relate their personal definitions of small business success.	
Lead the students in developing a checklist for successful small business operation. Have them include items such as innovation, creativity, strong sense of mission, motivation for money, setting good management examples, thinking like customers.	Siropolis, Small Business Management, pp. 490-491.

SUGGESTED EVALUATION TECHNIQUE

Provide students with descriptions of small business operations (pp. 21-22). Have students determine with 100% accuracy an aspect of each business that would have an impact on its future success.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Show the filmstrip "Procedures for Planning a New Enterprise" at a chapter meeting. Discuss the characteristics of both successful and unsuccessful ventures.

SUGGESTED EVALUATION TECHNIQUE
ENT-004

SMALL BUSINESS OPERATIONS

DIRECTIONS: Read the small business descriptions and identify a minimum of one aspect of each business that would have an impact on its future success.

Business Operation 1: A small engine repair shop has been in business for 25 years. During this time, the owner, Mr. Brown, has been the manager as well as the primary repairman. The business has always shown a profit that has kept up with inflation. Mr. Brown's son, Jason, wants to expand the business to meet the repair needs of more complex pieces of equipment. This would involve Jason attending a vocational school to learn computerized systems which are now being incorporated into equipment. Mr. Brown rejects the idea, using the rationale that there will be repair work he can do for as many more years as he chooses to work.

An aspect of this business that would have an impact on its future success is:

Business Operation 2: Jane Wilson owns a small, full-service restaurant. It is located in the business district of a mid-size city. Jane needs to increase the number of evening meal customers, but does not have a large advertising budget with which to work. She decides to involve the employees in the effort to increase the evening customer count. She does this by having a contest among the employees to develop the most cost efficient marketing strategy. The winner, based on a customer gain of at least 20 percent, will receive a share of the business profit.

An aspect of this business that would have an impact on its future success is:

__Business Operation 3__: Sam Stevens has always wanted to own and operate his own business. He has considered a variety of ventures. He has even gotten friends' opinions as to the possible success of each venture. Because of the success of a commercial cleaning service in the same small town, Sam decides to begin his own. After watching the operation of the other cleaning service, he copies its management in every way possible, even to locating across the street from the original company. After six months of unsuccessful operation, Sam closes the doors to his commercial cleaning business. He opens, instead, a home cleaning operation, which the community does not have.

An aspect of this business that would have an impact on its future success is:

ANSWERS -- SMALL BUSINESS OPERATIONS

Business Operation 1

Aspects of the business with implications for future success:

1. There is an unwillingness to innovate.
2. There is no desire to expand the business operation.
3. There is no desire to experiment in a related business field.
4. There is no example set by the owner.

Business Operation 2

Aspects of the business with implications for future success:

1. There is a willingness to try something new.
2. There is a concern for value (cost efficient marketing strategy).
3. There is a strong sense of mission.
4. There is a move from bureaucracy through the implementation of work groups and a short term goal.
5. There is a desire to gain through experimentation.
6. There is an incentive to employees.
7. There is an example set by the owner/operator.

Business Operation 3

Aspects of the business with implications for future success:

1. There is ultimately a new business (the home cleaning business).
2. There was a move into a proven business area.
3. There is a strong sense of mission.
4. There was attention to fundamentals (a switch from commercial to home cleaning to increase success potential).
5. There was experimentation (the commercial cleaning operation).
6. There was customer consideration (home cleaning business was needed).

Instructor's Final Checklist

DIFFERENTIATING BETWEEN SUCCESSFUL AND UNSUCCESSFUL SMALL BUSINESS OPERATIONS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student determined with 100% accuracy an aspect of three small businesses that would have an impact on their future success	☐	☐	☐

Instructor's Guide Sheet ENT-005

DIFFERENTIATING BETWEEN PRIVATE ENTERPRISE AND OTHER ECONOMIC SYSTEMS

OBJECTIVE

Without the use of resources, list and describe with 100% accuracy three economic systems. List three ways that private enterprise differs from the other economic systems.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of knowing that the private enterprise system provides the most stable foundation for small business.

TEACHING STRATEGIES	RESOURCES
Have students read materials on economic systems.	Brown and Warner, Economics of Our Free Enterprise System, pp. 11-17, 108-118. High School Government Textbooks. Klewer and Luter, Career Planning in the Private Enterprise System, pp. 7-13. Kentucky Competency Based Vocational Education Modules ES-26, "The Function of Our Economic System," and ES-27, "How Our Economy Works." Petersen, Economics of Work, pp. 1-7. Petersen and Lewis, Free Enterprise Today, pp. 4-14, 452-468.
Have students define economic system and describe each of the following: free enterprise system, command economy, mixed economy.	
Have students complete a class project on working within an economic system.	Klewer and Luter, Career Planning in the Private Enterprise System, "Shipwrecked," pp. 14-15.

Have each student do a self-study on the economic system best suited to him/her.	Klewer and Luter, Career Planning in the Private Enterprise System, "Which Economic System Is Best for You?" p. 17.

SUGGESTED EVALUATION TECHNIQUE

Have students list and describe with 100% accuracy three economic systems. Have them list three ways free enterprise differs from the other systems.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Invite a person knowledgeable in the area of economics (e.g., banker, government teacher, financier) to speak at a chapter meeting.

Instructor's Final Checklist

DIFFERENTIATING BETWEEN PRIVATE ENTERPRISE AND OTHER ECONOMIC SYSTEMS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student listed with 100% accuracy three types of economic systems	☐	☐	☐
The student described with 100% accuracy three types of economic systems	☐	☐	☐
The student listed three ways private enterprise differs from other economic systems	☐	☐	☐

CONDUCTING MARKET RESEARCH

OBJECTIVE

Given the name of a hypothetical small business, conduct a simulation of market research which includes making a market research questionnaire, conducting a market survey, and making decisions based on marketing research. Your research will be evaluated in accordance with the Instructor's Final Checklist.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of well-planned and executed market research.

TEACHING STRATEGIES	RESOURCES
Have students read materials on conducting market research.	Drucker, Innovation and Entrepreneurship, pp. 44-45, 159, 191-192. Hanson, Entrepreneurship: A Career Alternative, pp. 11-14. Hutt, Creating a New Enterprise, pp. 48-50. Osgood, Business Planning Guide, pp. 14-18. Siropolis, Small Business Management, pp. 410-421.
Invite a marketing expert to share the how-to's of doing a market survey.	Local/area persons may be listed in the telephone directory yellow pages under Advertising or Marketing Research.
Lead the students in developing a list of criteria for creating and evaluating market research. Have students formulate a market research questionnaire and discuss research methods and ways of evaluating research findings.	Kentucky Competency Based Vocational Education Task Assignment Sheets PA-MD-1, "Making a Market Research Questionnaire;" PA-MD-2, "Conducting a Market Survey;" and PA-MD-3, "Making Decisions Based on Marketing Research."

SUGGESTED EVALUATION TECHNIQUE

Provide students with the name of a hypothetical small business. Have them develop a market research questionnaire, conduct a market survey, and make decisions based on marketing research. Evaluate using Instructor's Final Checklist.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Develop and implement market research for an entrepreneurial venture that would benefit the chapter/school.

Instructor's Final Checklist

CONDUCTING MARKET RESEARCH

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

In conducting a simulation of market research, the student:

	Fully Accomplished	Not Accomplished	Not Applicable
a. Developed a market research questionnaire that included:			
1. Title	☐	☐	☐
2. Problems to be solved	☐	☐	☐
3. Directions for filling out the questionnaire	☐	☐	☐
4. Directions for returning the completed questionnaire	☐	☐	☐
b. Surveyed ten people	☐	☐	☐
c. Made decisions concerning the problems stated in the questionnaire:			
1. Made a valid decision, as indicated by the data, for each problem	☐	☐	☐
2. Identified the data used as a basis for each decision	☐	☐	☐

INVESTIGATING SOURCES OF HELP AND ADVICE

OBJECTIVES

(1) Given local/area telephone directories and/or a Chamber of Commerce directory, identify with 100% accuracy ten sources of help and advice for entrepreneurs.

(2) Using the list of ten sources of help and advice for entrepreneurs developed in Objective 1, describe a minimum of one service provided by each.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of identifying and investigating sources of help and advice before entering an entrepreneurial venture.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students read materials on sources of help and advice for entrepreneurs.	Hanson, Entrepreneurship: A Career Alternative, p. 16. Hutt, Creating a New Enterprise, pp. 30-32. Klewer and Luter, Career Planning in the Private Enterprise System, pp. 31-32. Siropolis, Small Business Management, pp. 285-301.
Lead students in listing local/area sources of help and advice for entrepreneurs.	
Objective 2	
Invite several of the following persons to speak on services they can provide to entrepreneurs: accountant, attorney, banker, representative from a trade association, Small Business Administration, or Chamber of Commerce.	

Provide students with a small business case study. Have them identify appropriate sources of help and advice and list the services each would provide.	Nelson, et al., *Owning and Operating a Small Business*, pp. 20-21.

SUGGESTED EVALUATION TECHNIQUES

(1) Provide students with local/area telephone directories and/or a Chamber of Commerce directory. Have them identify with 100% accuracy ten sources of help and advice for entrepreneurs.

(2) Have students use the list of ten sources of help and advice for entrepreneurs developed in Evaluation Technique 1 and describe a minimum of one service provided by each.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Invite a member of the Small Business Administration or the local/area Chamber of Commerce to present an overview of sources of help and advice their organization can provide for entrepreneurs.

Instructor's Final Checklist

INVESTIGATING SOURCES OF HELP AND ADVICE

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

Note to Instructor: For a one-semester course, use the checklist statement(s) for Objective 1. For a one-year course, use the statement(s) for both objectives.

	Fully Accomplished	Not Accomplished	Not Applicable
Objective 1			
The student identified with 100% accuracy ten sources of help and advice for entrepreneurs	[ ]	[ ]	[ ]
Objective 2			
The student described a minimum of one service provided by each of ten sources of help and advice to entrepreneurs .	[ ]	[ ]	[ ]

INVESTIGATING LOCAL/AREA BUSINESS TRENDS

OBJECTIVES

(1) With the assistance of a local/area businessperson, accurately identify one local/area small business trend.

(2) Investigate the small business trend identified in Objective 1 and state a forecast for it. The forecast will include the name, potential increase/decrease in business rate, and rationale.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance to entrepreneurs of investigating local/area business trends.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students list local/area small businesses which have been started within the past five years.	
Have students read materials on or attend shows dealing with business trends which may affect the economy of the locality and/or area.	Hutt, Creating a New Enterprise, pp. 41-48. Newspaper articles; magazine articles; trade, craft and hobby shows. Petersen, Economics of Work, pp. 85-90. Siropolis, Small Business Management, pp. 62-75. Small Business Administration, "Checklist for Going Into Business."
Have students list and discuss the ways in which new business enhances the economy of a locality and/or area.	
Invite a local business person to discuss the future of business in the locality and/or area.	Small Business Administration or Chamber of Commerce member.

Objective 2

Have each student identify, research and report on a local/area business trend.

SUGGESTED EVALUATION TECHNIQUES

(1) **Have students interview local/area businesspersons regarding local/area business trends. Have each student report on one local/area small business trend.**

(2) **Have each student investigate the small business trend identified in Evaluation Technique 1 and state a forecast for it. The forecast should include the name, potential increase/decrease in business rate, and rationale.**

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Research the development of local/area businesses from ten years ago until the present. Answer questions such as the following: What trends emerge and look strong for the future? What has caused their strengths? Write an article or news item for the media.

Instructor's Final Checklist

INVESTIGATING LOCAL/AREA BUSINESS TRENDS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

Note to Instructor: For a one-semester course, use the checklist statement(s) for Objective 1. For a one-year course, use the statement(s) for both objectives.

	Fully Accomplished	Not Accomplished	Not Applicable
Objective 1			
The student accurately identified one local/area small business trend	☐	☐	☐
Objective 2			
The student stated a forecast for a small business trend. The forecast included:			
a. Name	☐	☐	☐
b. Increase/decrease in business rate	☐	☐	☐
c. Rationale	☐	☐	☐

IDENTIFYING IMPACT OF SMALL BUSINESS TRENDS ON STATE/NATIONAL/INTERNATIONAL BUSINESS

OBJECTIVE

Given a local/area small business trend, accurately identify one impact it might have on state/national/international business.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of small business trends to the development of state/national/international business.

TEACHING STRATEGIES	RESOURCES
Have students read materials on the importance of trade between countries.	Current news magazines (e.g., Newsweek, U.S. News and World Report, Time). Petersen, Economics of Work, pp. 123-127. Petersen and Lewis, Free Enterprise Today, pp. 434-449. Siropolis, Small Business Management, pp. 434-437. Small Business Administration, "Market Overseas with U.S. Government Help."
Invite a representative from the Kentucky Department of Economic Development to discuss the impact of small business on a state's economy.	
Using a current magazine article on entrepreneurs involved in national/international trade, have students trace the movement of a local business trend into the international markets.	Topolnicki, "Home Grown Americans Go Global," Money Magazine, May 1987, pp. 106-108, 112-120.

SUGGESTED EVALUATION TECHNIQUE

Provide students with a local/area business trend (ENT-008, Objective 2, Strategy 1). Have them accurately identify one impact it might have on state/national/international business.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Research state/national/international business trends and report to the chapter.

Instructor's Final Checklist

IDENTIFYING IMPACT OF SMALL BUSINESS TRENDS ON STATE/NATIONAL/INTERNATIONAL BUSINESS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately identified one impact a local/area small business trend might have on state/national/international business	[ ]	[ ]	[ ]

IDENTIFYING POTENTIAL CLIENTELE

OBJECTIVE

Given a case study describing a small business, list with 100% accuracy five groups of potential clientele and accurately state one rationale for each.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of identifying potential clientele for the success of small business.

TEACHING STRATEGIES	RESOURCES
Have students read materials on identifying potential clientele.	Information Sheet, "Understanding Your Customers," pp. 47-54. Nelson, et al., Owning and Operating a Small Business, p. 18. Osgood, Business Planning Guide, pp. 14-15. Petersen and Lewis, Free Enterprise Today, pp. 357-361. Samson, et al., Retail Merchandising, pp. 228-231. Siropolis, Small Business Management, pp. 413-421. Small Business Administration, "Learning About Your Market."
Have students define competition, competitors, and competitive edge. Have them complete an activity on comparing competitors. Lead a discussion on how comparing competitors can result in identifying potential clientele.	Hutt, Creating a New Enterprise, pp. 61-63.
Conduct a class project in which students determine the wants and needs of potential clientele.	Nelson, et al., Owning and Operating a Small Business, p. 19.

SUGGESTED EVALUATION TECHNIQUE

Provide students with a case study describing a small business (p. 55). Have them list with 100% accuracy five groups of potential clientele and accurately state one rationale for each.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Present a skit on the buying habits of today's teenagers and how these affect the ways in which owners of small business market their product(s).

U.S. Small Business Administration
Management Assistance
Support Services

Management Aids
Number 4.001

SBA

Understanding Your Customers

By Harold W. Fox, Professor
Department of Marketing
Ball State University
Muncie. Idiana

Summary

Buyer orientation—understanding and satisfying your customers—is essential for commercial success. This Aid explains how small companies can profit from understanding their customers.

Understanding one's customers is so important that large corporations spend hundreds of millions of dollars annually on market research. Although such formal research is important, a small firm can usually avoid this expense. Typically, the owner or manager of a small concern knows the customers personally. From this foundation, understanding of your customers can be built by a systematic effort. A comprehensive system for understanding is what Rudyard Kipling called his six honest serving men. "Their names are What and Why and When and How and Where and Who."

What

A seller characterizes what customers are buying as goods and services—toothpaste, drills, video games, cars .... But understanding of buyers starts with the realization that they purchase benefits as well as products. Consumers don't select toothpaste. Instead, some will pay for a decay preventive. Some seek pleasant taste. Others want bright teeth. Or perhaps any formula at a bargain price will do.

Similarly, industrial purchasing agents are not really interested in drills. They want holes. They insist on quality appropriate for their purposes, reliable delivery when needed, safe operation, and reasonable prices.

Video games are fun. They are bought for home entertainment, family togetherness, development of personal dexterity, introduction to computers, among other satisfactions. Commercial customers include arcades, pizza parlors, and assorted enterprises. They benefit from a potential source of income, a means of attracting buyers to their premises, or perhaps a competitive move.

Similarly, cars are visible evidence of a person's wealth, reflection of life style, a private cabin for romance. Or they represent receipts from leases, means to pursue an occupation .... Some people even buy cars for transportation.

You must find out, from their point of view, what customers are buying. The common names of products mean as little to them as the chemical names on the label of a proprietary drug. (A sick person's real need is safe, speedy relief.) Understanding your customers enables you to profit by providing what buyers seek—satisfaction.

Products change, but basic benefits like personal hygiene, attractiveness, safety, entertainment, and privacy endure. So do commercial purposes such as quests for competitive superiority or profitability.

Successful manufacturers and service establishments produce benefits for which customers are willing to pay. Successful wholesalers and retailers select offerings of such demanded benefits that they can resell at a profit. Successful businesspeople, in other words, understand the reason for their customers' buying decisions.

Why

The reason that customers buy is logical from their point of view. Understanding customers derives from this fundamental premise. Don't argue with taste.

Everybody is unique. Each person has individual pressures and criteria. Moreover, perceptions differ. The astute businessperson deduces and accepts the buying logic of customers and serves them accordingly.

To learn why customers buy can be quite difficult. Some buyers hide their true motivations. In many cases the reasons are obscure to the buyers themselves. Most purchase decisions are multi-causal. Often, conflicts abound. A car buyer may want the roominess of a large vehicle and the fuel economy of a subcompact. The resolution of such mutually exclusive desires is usually indeterminate.

Sometimes the reasons why customers buy are trivial. If customers feel indifferent toward a product or store, the selection is apt to be happenstance. Perhaps several rival offerings meet all the conditions that a purchaser deems important. Consequently, minor factors govern. This explains the rationale of the consumer who chose a $12,000 car because its upholstery was most attractive. The point: Pay attention to details. They may be crucial to customers.

Often the best clues are the customers' actions. Shrewd businesspeople respect what people say, but pay special attention to what people do. More important than why customers buy is why *former* customers have taken their patronage elsewhere and why qualified buyers are not buying. What is now keeping them from buying?

Can this obstacle be surmounted? Businesspeople monitor competitive offerings and buyers' reactions to infer clues. Informal conversations may also reveal some reasons. Special offers may overcome resistance and boost profits.

All the time the manager must be careful to retain the company's regular customers. For instance, a specialty dress shop may try to widen its patronage through a new line at bargain prices. This move could disturb the store's usual patrons. They may take their trade to another store that caters exclusively to their social class.

Many of the dresses were bought for special occasions when projection of a genteel image was important to the customer. Understanding of customers includes awareness of the time of the purchase and use of the merchandise.

When

A seller must be ready when the buyer is, lest an opportunity be irretrievably lost. Customers buy when they want an offering and have the time and money to purchase it. Buying patterns can often be discerned from an analysis of customers and their purchases. For example, wants for many consumer goods and services are tied to customers' rites of passage. The following purchase occasions in the adult life cycle are typical:

1. Marriage, separation, divorce
2. Acquisition of a home
3. Change in employment or career
4. Graduate study; running for office
5. Health care, injury, illness
6. Pregnancy, nurture of children
7. Children enter school; graduate
8. Children leave home (for college or permanently)
9. Move to another area
10. Vacations; major social activities
11. Permanent retirement from work
12. Death of a family member.

Shrewd retailers keep track of such key buying events and gain a head start on making sales. Logs of birthdays and anniversaries are a case in point.

Additional purchase occasions are impersonal. Seasonal factors include recurring holidays and weather changes. Among other favorable influences on purchases are start of the school year, semi-annual white sales, introduction of new models and clearance of old ones, special price concessions, and improvement in economic conditions or buyer's confidence.

Some of the latter factors also apply to manufacturers. Small plants work closely with their buyers' inventory managers and replenish stock at their reorder point. A current vogue is just-in-time delivery. Interactive computers make replenishment notices routine.

Many consumers have time for shopping only during off-hours, in the evenings, and on weekends. The trend from a single breadwinner per family toward having all adults of a household engage in commercial employment has intensified this time peculiarity. Astute retailers adjust their hours, staffing, and availability of merchandise to customers' shopping convenience. Bartenders know that business booms on payday. Manufacturers profit from timing their offers to their customers' budgetary cycles. Thus, knowing when products are bought and used is a valuable facet of understanding customers.

Although a transaction may be concluded in a moment, most purchases actually entail a drawn-out process. This process will be described in the next section which analyzes how customers buy.

How

Knowledge of how customers buy pays off in several ways. (1) Sellers can design their offerings to meet the exact needs of their buyers. (2) Sellers can influence decision makers at crucial steps of the buying process. (3) Sellers can lay the groundwork for repeat business.

Buying methods are best visualized as processes. Household purchases usually start when a consumer has a desire or a problem that an acquisition might satisfy or solve. Industrial purchases usually start when a user or a routine sets off a signal (requisition) for approval of a procurement.

People are diverse. Every consumer, every firm pursues a buying process of its own. Buying processes also depend on the significance of the product to the buyer and on other circumstances. Although buying processes are not uniform, some steps are common to most of them. The seller needs to know only these critical steps when he or she can affect the outcome of the buying decision.

Shrewd sellers delve into the behavioral milestones of purchasers. A chart of typical steps, such as Figure 1, helps sellers understand their average customers and devise effective marketing programs. But for each very important customer the buying process should be diagrammed individually, showing names of influencers at each decision stage, elapsed time between stages, and any other pertinent information.

A quick examination of Figure 1 shows that such a diagram is not difficult to prepare. Down the Center is a simplified process of buying any household product for which comparisons precede commitment. The left side of Figure 1 depicts illustrative factors impelling a purchase. On the right are the types of obstacles that could deter the process.

Perhaps a change in life style or a demonstration at a friend's house has caused this consumer to recognize the need for a personal computer. But lack of knowledge and the fear of a wrong decision may counteract this desire. The process continues, however, if advertisements and expected benefits persuade the consumer to act. Despite budgetary constraints and uncertainty about future needs, the consumer proceeds to compare stores and brands.

At this search and evaluation stage advice from present satisfied customers is especially influential. Make sure your customers are satisfied and favorably recommend your merchandise or service. To the contrary, poor shopping facilities or irritating personnel can sway the potential customer against making the purchase from you.

Sooner or later, further search does not seem worthwhile. If the positives (on the left of Figure 1) still outweigh the negatives (on the right), the consumer picks a store and brand. The transaction itself is consummated quickly, assuming the wanted item is available. The satisfied customer makes recommendations to others and gives you his or her repeated, regular business.

Businesspeople can create sales by predisposing potential buyers to their product or store. Manufacturers can offer exclusive benefits in their goods, such as friendly relations, efficient operations, and easy manuals. Enticing advertisements help persuade prospects to visit a retail outlet and ask about a particular brand. Creative salespeople overcome the customer's objections and doubts and close the sale. Post-transaction service keeps the customer satisfied. Referrals usually follow.

Since Figure 1 is general, specific details are needed to track acquisition of something complex, say a computer. On the other hand, less detail is needed if the purchase is laundry detergent or some other staple with which the customer is less involved. In the latter case, depletion of the home inventory triggers a routine, leading directly to choice: the usually purchased brand. If the usual brand is out-of-stock or another brand is on sale, a substitute may be bought quickly. Brand comparisons follow or may be omitted.

Some products are bought when an emergency need for them arises. A physical examination and the filling of a prescription are urgent when sickness strikes. Arrangements for funerals follow immediately after the death of a family member. Umbrellas are in demand when it rains. An unexpected snow storm generates extra calls for tire chains, towing services, and car batteries. Often, convenient availability determines when these goods and services are purchased. And even if customers do have ample time to select merchandise, sellers who stand ready to supply wanted or expected brands are apt to gain preference and profit when shoppers decide where to buy.

People want options. Although convenient availability is the main buying criterion for many routine household products, savvy merchants stock a selection conforming to the diverse preferences of their patrons. Some people demand manufacturers' advertised brands. Resellers' brands are favored by others. On some classes of goods, generic brands have become popular in recent years. Moreover, many consumers seek occasional variety. Clearly the decision of which products to stock is important.

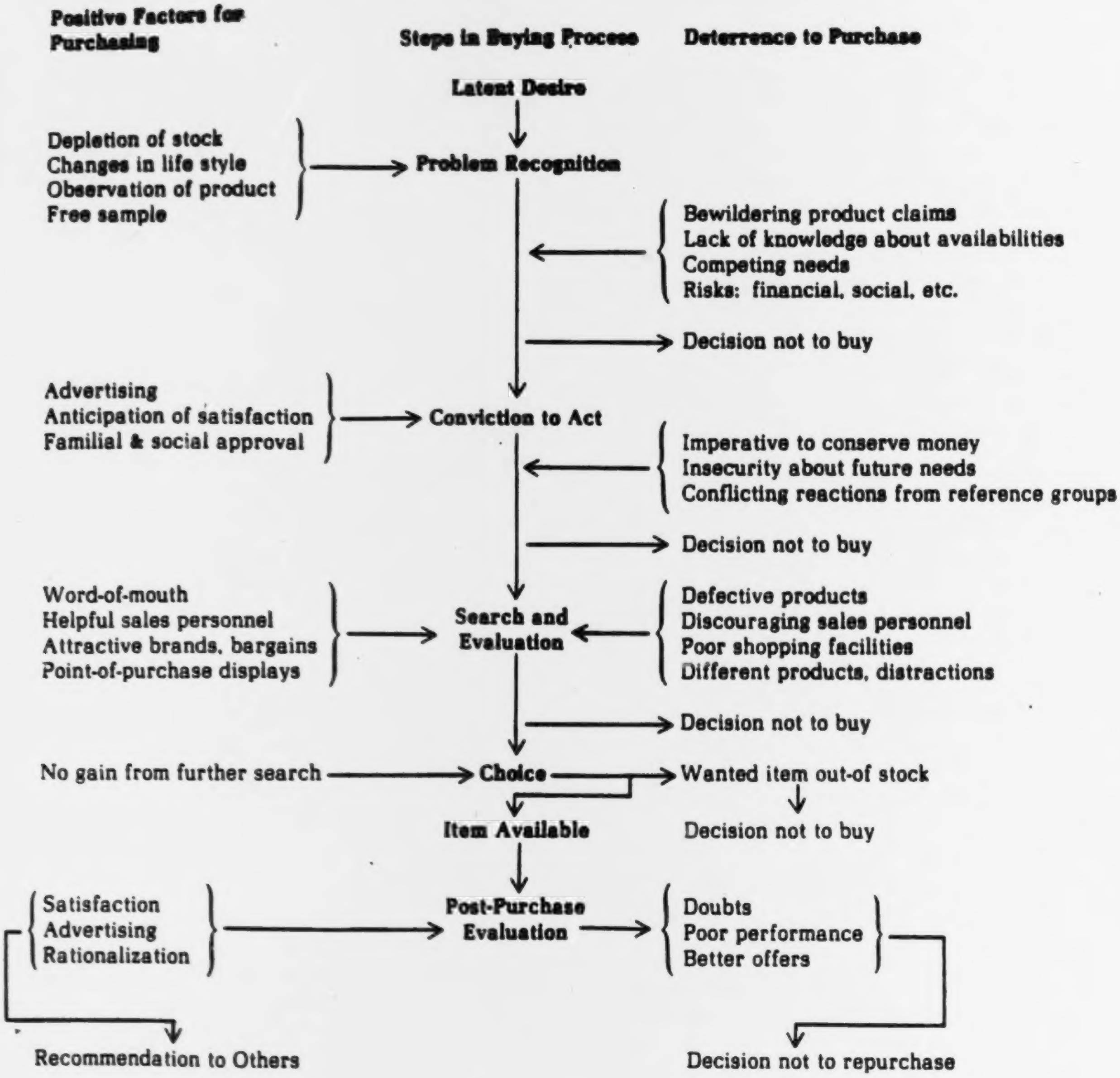
It is more important yet on shopping goods because buyers compare them before purchase. And it is most important on specialty goods, those preselected by brand name. If a store does not stock these uniquely wanted brands, a prospect will leave without buying. Whoever offers them on acceptable terms gains the sale.

Where

From a multitude of studies emerge different criteria for deciding where to shop. Most research on the subject agrees that store location is a major consideration. Stores usually draw most of their patronage from their surrounding neighborhood.

Figure 1

A Simplified Model of Consumer Purchasing


Positive Factors for Purchasing
Steps in Buying Process
Deterrence to Purchase
Latent Desire
Depletion of stock
Changes in life style
Observation of product
Free sample
Problem Recognition
Bewildering product claims
Lack of knowledge about availabilities
Competing needs
Risks: financial, social, etc.
Decision not to buy
Advertising
Anticipation of satisfaction
Familial & social approval
Conviction to Act
Imperative to conserve money
Insecurity about future needs
Conflicting reactions from reference groups
Decision not to buy
Word-of-mouth
Helpful sales personnel
Attractive brands, bargains
Point-of-purchase displays
Search and Evaluation
Defective products
Discouraging sales personnel
Poor shopping facilities
Different products, distractions
Decision not to buy
No gain from further search
Choice
Wanted item out-of stock
Item Available
Decision not to buy
Satisfaction
Advertising
Rationalization
Post-Purchase Evaluation
Doubts
Poor performance
Better offers
Recommendation to Others
Decision not to repurchase

Savvy store managers make a special effort to understand the shopping-related motivations and preferences of local residents. New managers of fast-food units, for example, canvass nearby dwellings and introduce themselves to the households. Some supermarkets maintain consumer advisory boards to elicit suggestions and reactions. Other means of communication with customers include informal conversations at the store and suggestion boxes with interviews and awards.

Incidentally, complaints are an excellent guide for making store policies more amenable to customers. Personnel should be instructed to thank patrons for their comments. Prompt consideration, followed by a personal letter from the store manager, is highly desirable.

Location is extremely important to "captive" buyers. Exclusively franchised utilities, shops in isolated hotels, and cafeterias or automatic vending machines in factories are examples. At the opposite extreme, shoppers escape spatial restrictions by buying from mail-order firms or telephone solicitors.

Other patronage influences vary. They depend on the type of product, type of store, and the characteristics of the consumer. The offered assortment's perceived quality, depth, and breadth certainly are very important, along with price. This does not imply that all goods have to be top quality or all prices the lowest. Perceptions are decisive.

If quality seems high, some customers infer that prices are high too regardless of the facts. The important point is to understand customers and to provide what causes them to buy. For example, assurance of repair service weighs heavily with the worrier type of customer. A convenience-minded buyer is concerned with parking space or delivery service.

Of course, shoppers must be told that wanted goods and services are available. Advertising helps disseminate this information. So does a store's reputation for consistent policies of satisfying its customers.

Occasional promotions inject some excitement into the tedium of shopping. Some clients like to socialize, which can absorb much of an employee's time and may even annoy other buyers. Nevertheless, personnel should be friendly and helpful. Also influential, for some customers, is the apparent socio-economic level of other shoppers.

Personal affinity for other customers or for salespeople is a decisive factor in the success of party-selling, e.g., household goods and in-home selling (cosmetics). The choice of where to buy items requiring major outlays (securities, and insurance) often revolves around from whom to buy.

In selecting a retail store, many customers consider physical features. Layouts can invite or repel patronage. Motorists who are in a hurry, for instance, are apt to use a gasoline station at which business can be transacted quickly. Altogether, buyers perceive a mix of tangible and intangible factors that comprise a store's atmosphere. Accordingly, they either do or don't feel comfortable about shopping there.

To the casual observer, all supermarkets seem more or less alike. But, in fact, store managers can regulate many of the above-mentioned variables and thereby affect where shoppers buy. According to recent studies in several American cities, household buyers perceive supermarkets in their neighborhood as sufficiently different to determine their patronage preference. As shown in Figure 2, the four main types of supermarkets offer (in clockwise order): (1) High quality at commensurate prices, (2) Lowest price level in the area, (3) Swift completion, (4) Friendly atmosphere. Each can profit by appealing to a different segment of buyers, the topic of the next section.

Who

Identification of customers and prospects makes effective targeting possible. Small business owners pride themselves on knowing their customers personally. In the industrial field, understanding of each major customer and buying influence is essential. When dealing with a large number of customers, however, individual familiarity is not feasible. Hence mass merchandisers and others in this situation group their customers, whose reactions to offerings are similar, into segments. Then they design a separate appropriate marketing program for each segment.

Strategies vary. A small firm might prosper by concentrating its resources on one segment. Because customers are volatile, the specializing firm is vulnerable to sudden change in its target segment's patronage. Hence some companies address several segments simultaneously. Although expensive, a strategy of employing different tactics for different segments can be quite profitable. Other firms scatter offers to just anybody. They hope that segments will select themselves. Figure 2 shows typical segments of supermarkets.

Figure 2

Supermarket Patronage By Segments

"Shopper Gains"
The Hedonists
"Want Shopping to be Pleasurable, without Extra Cost"
- Attractive Decor and Displays, especially for Perishables
- Friendly, accommodating Store Personnel
- Exciting Promotions

"Shopper Costs"
The Buys
- Nearby Locations
- Fast Check-Out
- One-Stop Shopping

"Want to Save Time"

"Household Gains"
The Affluent
"Want Best Quality, and Will Pay for it"
- Wide Assortment of the Best Perishables
- Specialty Departments
- Wide Assortment of "Favorite" Brands

"Household Costs"
The Squeezed
- Lowest Prices
- Wide Assortment of "Economy" Brands

"Want to Save Money"

One basis for segmentation is geographic. Retail customers are apt to live or work in the store's vicinity. Industrial buyers tend to concentrate regionally. So do users of services. Intensive cultivation of local potential customers can be efficient and lucrative. Personal knowledge of local buyers and a shared community spirit help cement relations with these customers.

Segmentation is an art. All "honest serving men"—what, why, when, how, where, as well as who—can be the key to segmentation. Whatever the basis, each identified segment should have sufficient purchasing power to make a special effort commercially worthwhile. Accessibility is vital. How can the segment be reached? Are advertisements, telephone solicitations, or personal visits efficient? How about trade shows or personal contacts? The ideal segment is stable in purchase needs and loyalty, helping you fend off competition.

Besides segmentation, understanding of customers also requires insight into their buying roles. The buyer for a one-person household or one-person business is the initiator of the order, the decider, and the user. Even in this case, however, some outsiders are influential.

In larger households or businesses, these buying roles are usually played by separate individuals. It helps you to know who activates (requisitions) purchases, who exerts influence, who decides what and where to buy, who uses the product—and what their criteria are. Then you tailor and target your offerings to satisfy each major participant in the buying process.

As has been shown, understanding of customers enables a seller to increase sales. This same understanding can equally serve to reduce costs. Higher sales at lower costs inevitably boost profits.

A small firm that understands its customers can buy or produce exactly what they want—and nothing else. The firm's sales effort is efficient because it builds on why its customers want to buy not on why others buy, or why the vendor wants to sell.

Merchandise can be ready when customers need it. Thus a knowledgeable seller avoids unnecessary inventory costs or penalties for late delivery. Understanding how customers buy lets a seller employ promotional media, appeals, and timing for maximum effectiveness. Transportation costs are lowered by shipping merchandise to where it is needed. Knowledge of who comprises suitable segments and the separate buying roles can reduce the waste of soliciting unqualified or uninterested people.

Customers Are Dynamic

The best source for you to learn about customers is your personal interaction with them. At work, social

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and civic activities, and chance encounters, people talk and reveal their attitudes and motivation. Listen to your customers. You can also keep abreast of purchasing patterns by observing competitors' practices and by asking sales personnel who is buying what, where. Articles in business and trade newspapers and magazines give information on products, trends, marketing, finance, the economy. Trade directories, Yellow Pages, and brokers' direct-mail lists identify who buyers are, and most industries have associations and specialized marketing research that provide insights for understanding customers.

Sales records can tell you when customers buy. To figure out where customers buy, consult the "Annual Survey of Buying Power" (for consumer products) and the "Annual Survey of Industrial Buying Power" (for industrial products). Both are published by *Sales and Marketing Management* magazine and are available in libraries or from the publisher at 633 Third Avenue, New York City, New York 10164-0563. The U.S. Department of Commerce's Bureau of the Census publishes the U.S. Census of Manufactures that, too, is an excellent source of marketing data.

The U.S. Small Business Administration publishes the "U.S. Government Purchasing and Sales Directory," a listing of goods and services that the Federal Government buys, including also property sold by the Government. The Commerce Department publishes *Commerce Business Daily*, another source of proposed defense procurement and subcontracting opportunities. The present subscription rate is $175 a year; and like the other Government publications mentioned, is available for sale from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402.

Customers change because their needs change. Neighborhoods and industries change. Regions and the whole economy change. Learning to understand your customers is an endless challenge and effort; but knowing the what, why, when, how, where, and who of your customers will pay off in better sales efforts, effective cost controls, and more profit.

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SUGGESTED EVALUATION TECHNIQUE
ENT-010

CASE STUDY FOR POTENTIAL CLIENTELE

Jim and Carole became interested in assuming the responsibility of an established, small community, family-style restaurant operation. It had been in operation for 25 years as an extension of a locally-owned motel business. For approximately 15 of those years, the establishment had been the major restaurant for the community of 4,000 residents. The last ten years, however, has seen a development of fast-food establishments within three miles of this family-style restaurant. As a result, its financial future was viewed as bleak by many in the community.

Jim and Carole realize that change is necessary if the business is to survive. They also realize that this operation is still the only traditional family-style restaurant business in the area. They will initiate the following operation changes over the first six months of their ownership of the restaurant:

1. add a children's menu for all three meals of the day,
2. provide a weekday luncheon buffet at a special price,
3. offer a weekend breakfast buffet with reduced prices for children and senior citizens,
4. advertise regional foods along with fresh baked breads and desserts,
5. publicize the availability of two meeting rooms (one being large enough for banquets/receptions),
6. begin live dinner music on Friday and Saturday evenings, and
7. celebrate holidays and local events with special hours and menu offerings.

Jim and Carole are hoping for new clientele for the restaurant. In the space below list five groups of potential clientele and one rationale for listing each group.

Groups	Rationale
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.

SUGGESTED EVALUATION TECHNIQUE
ENT-010
ANSWERS

Groups	Rationale
1. Families with small children.	1. The addition of a children's menu and the Saturday breakfast buffet.
2. Business people with a limited lunch hour.	2. The luncheon buffet with a special price.
3. Senior citizens.	3. The Saturday breakfast buffet.
4. Persons from other localities (tourists/salesmen).	4. The regional foods along with fresh baked breads and desserts.
5. Planners for clubs and organizations and social events.	5. The availability of two meeting rooms.
6. Adult couples/singles looking for a relaxed dining atmosphere.	6. The live dinner music on Friday and Saturday evenings.
7. Family groups and/or visitors from out of town.	7. The special hours and menu offerings for holidays and local events.

Instructor's Final Checklist

IDENTIFYING POTENTIAL CLIENTELE

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student listed with 100% accuracy five groups of potential clientele for a small business described in a case study	☐	☐	☐
The student accurately stated one rationale for each group of potential clientele for a small business described in a case study	☐	☐	☐

IMPLEMENTING ADVERTISING STRATEGIES

OBJECTIVES

(1) Without the use of resources, list with 100% accuracy five advertising strategies for small business.

(2) Given the steps and criteria for developing small business advertising strategies, develop one which meets the criteria as listed in the Instructor's Final Checklist.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of developing effective advertising strategies for small business success.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students read materials on advertising.	Everard and Burrow, Business Principles and Marketing, pp. 200-215. Information Sheets, "Tips on Getting More for Your Marketing Dollar," p. 61-66; and "Understanding Your Customer," pp. 47-54. Petersen, Economics of Work, pp. 112-116. Petersen and Lewis, Free Enterprise Today, pp. 259-268. Samson, et al., Retail Merchandising, pp. 284, 287-288, 291-297, 300-307. Siropolis, Small Business Management, pp. 410-417. Small Business Administration, "Learning About Your Market."
Have students read materials on advertising strategies.	Hutt, Creating a New Enterprise, pp. 91-93.

Nelson, et al., Owning and Operating a Small Business, pp. 91-97.

Petersen and Lewis, Free Enterprise Today, pp. 268-273.

Siropolis, Small Business Management, pp. 425-434.

Small Business Administration, "Advertising Guidelines for Small Retail Firms," "Creative Selling: The Competitive Edge," "Marketing Checklist for Small Retailers," "Plan Your Advertising Budget."

Have students study and evaluate media involvement in advertising, i.e., television, radio, newspaper, direct mail, door-to-door, and telephone directory yellow pages. Lead students in the development of criteria for effective advertising strategies.

Nelson, et al., Owning and Operating a Small Business, pp. 92-93.

Objective 2

Lead a discussion to identify the most effective advertising strategies for local/area small business. Use local/area advertisements for reference, i.e., television, radio, newspaper, direct mail, door-to-door, and telephone directory yellow pages.

SUGGESTED EVALUATION TECHNIQUES

(1) Have students list with 100% accuracy five advertising strategies for small business.

(2) Provide students with the steps and criteria for developing small business advertising strategies (p. 67). Have each student develop one strategy which meets the criteria as listed on the Instructor's Final Checklist.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Develop and use advertising strategies to promote organization membership.

U.S. Small Business Administration
Office of
Business Development

Management Aids
Number 4.008

SBA

Tips on Getting More for Your Marketing Dollar

By Ivan C. Smith
President
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/MEASUREMENTS /CONSUMER
/DISCOUNTS /ADVERTISING
/PROFITABILITY /CONSUMER
/MARKETING /SALES DOLLAR
/COMPETITION /MARKDOWNS
/BILLING /MEDIA EXPENSES
/GROSS MARGIN /PUBLICITY
/REFUNDS /MERCHANDISING
/SALES VOLUME /MARKETING
/COST ACCOUNTING SYSTEM
/OBJECTIVES MEASUREMENT
/CHANNEL OF DISTRIBUTION

MARKETING

Summary

Marketing costs can consume anywhere from 10 to 50 percent of your sales dollar. Every penny of your marketing costs may be justified. Many small business owner-managers, however, simply don't know what all of these costs are, let alone whether or not they're warranted.

This Aid suggests reasons for careful assignment of marketing outlays and suggests ways of using marketing accounting data to analyze marketing efforts and to make marketing decisions.

If you are to get the most for your marketing dollar, you must establish objectives for each of your marketing programs and carefully measure the results of those programs. The difficulty of setting such objectives and measuring the achievement of them accounts for why so few marketers do. But without objectives and measurements, you cannot hope to improve the effectiveness of your marketing programs and increase the return on your marketing outlays.

Knowing what is really happening to your marketing expenditures takes you a long way down the road to improving the effectiveness of your marketing program. But you've got to dig to learn what's really happening. Let's look at two examples of marketers who did and see what they found.

The Jones Company's Marketing Communications

The Jones Company† manufactured and marketed a line of consumer hardware products through hardware, home improvement, and building supply outlets. Jones's total annual sales volume was $4.2 million. The company traditionally spent an amount equivalent to 10 percent of sales to advertise its products in consumer publications. Although Jones's management had never analyzed the effectiveness of the advertising expenditure, they considered it a necessary part of their marketing program.

Jones's new marketing manager felt that the company could probably get more for its advertising dollar. Upon anylyzing the costs and results of the program, the manager made a number of interesting discoveries.

The new marketing manager found that, although the media portion of the advertising expenditure was divided about evenly among three publications, inquiries generated by one of them outnumbered inquiries generated by each of the others by almost two to one. Analysis of the consumer profile of the readers of each of the three publications revealed that the demographic profile of the reader of the publication which produced the most inquiries was much more closely aligned with Jones's typical customer profile than were those of the other two publications.

As a result of these findings, the marketing manager increased the advertising in the most effective publication and stopped using the other two. In the process, media expenses were cut by nearly 50 percent, while the number of inquiries generated actually increased.

A second major finding made by the new marketing manager was that all the company's advertising featured the entire product line and stressed primarily the quality features of the company's products, rather than the benefits users might expect from them. Based on these discoveries, the manager began advertising only selected high volume items.

New ads stopped stressing quality—at best an illusive attribute—and began to emphasize user benefits instead. By carefully watching sales over a two year priod, the marketing manager saw that the products advertised showed substantial sales volume increases, increases that more than offset the sales volume declines among the already low volume items for which advertising had been discontinued. While this approach worked for Jones, it should be noted that, depending on competition, customer desires, and the like, it may not at times be a sound strategy to promote an entire line.

As part of the analysis, the marketing manager had also conducted interviews among the store managers of some of the leading outlets of Jones Company products, discovering that store managers were not generally aware of the Jones advertising program. As a result of this finding, the marketing manager developed a program which not only kept retailers advised of the company's advertising efforts, but which also provided point-of-purchase merchandising materials to be supplied to the stores for use in conjunction with Jones's consumer advertising programs

The net result of this change was that total sales volume of advertised products showed a marked increase in those stores using the point-of-purchase materials, thereby helping Jones's boost sales. As an added bonus, this program helped Jones solidify its relations with the more aggressive retailers.

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† All company names in this Aid are fictitious.

Acme's Personal Selling Expenses

The Acme Company, a manufacturer and marketer of industrial products, employed ten sales representatives who sold the company's products directly to end users. There were five hundred active accounts on Acme's books. As is often the case for manufacturers, just one hundred of these accounts contributed 75 percent to Acme's sales volume.

Acme kept accurate, detailed records of selling expenses. Total costs for sales force salaries, travel and entertainment, and sales office management were $540,000 per year. Since the sales force made a total of 7200 sales calls per year, Acme's average cost per call was $75, which was in line with the national norm for companies marketing industrial products.

Acme's president was eager to increase the company's sales call productivity. A sales territory analysis revealed that, thanks largely to effective sales management, average calls per day per territory varied only slightly, ranging from a low of 2.7 calls per day to a high of 3.2

Further analysis, however, revealed a wide variation in total annual sales per territory. The territory with the lowest volume produced only $120,000 in sales, whereas the one with the largest volume was generating $520,000. Market potential in the two territories was estimated to be roughly equivalent, leading the president to believe there was a serious problem in the $120,000 territory.

Upon further digging, Acme's president discovered that the representative in the $520,000 territory (whose calls per day average was close to the company's lowest) called regularly on only those accounts with actual or potential sales in excess of $50,000 per year. In fact, of this rep's total sales volume, nearly 80 percent came from those regular calls on high volume accounts. The remaining 20 percent came from orders placed by telephone directly with the factory by smaller volume users, a procedure the representative had initiated and encouraged.

In contrast, the sales rep in the $120,000 territory, who was renowned for his hard work, regularly called on accounts where the sales volume, actual or potential, was less than $10,000 per year. Despite all the hard work, this representative had failed to analyze the potential in the territory on an account by account basis and then to apply effort only where it would produce the greatest results.

Two things happened as a result of the president's analysis. First, with the help of sales management, the productivity of the representative in the low volume territory increased greatly once the calls on low volume/low potential accounts were stopped. Second, and more importantly for the company, the president's analysis served as the basis for the development of a company-wide program in which low volume customers from anywhere in the country could place their orders directly with low cost inside sales personnel at headquarters using incoming WATS telephone lines.

Under the new program the company's sales volume increased by nearly 25 percent without the addition of any new outside sales representatives. In addition although the cost per sales call did not decline, the profitablity of the low volume accounts improved drastically as the result of the elimination of all personal selling costs and the substitution of the telephone order system.

Analyzing Marketing Costs

What brought about Jones's and Acme's successes? Clearly, a willingness to look at programs objectively and a readiness to change. The foundation for these successes was, of course, a good system for identifying and assigning costs which permitted managment to pinpoint wasted effort and ineffective programs.

The problem for many small business owner-managers isn't that they are unable to make equally penetrating analyses of their marketing costs and come up with solutions to inefficient use of marketing dollars. The real problem is that many owner-managers don't have the kind of information they need to begin to make such an analysis. Why not?

Accounting systems. First of all, typical accounting systems are commonly manufacturing production oriented. Such systems are fine for breaking down manufacturing costs, but frequently lump all marketing costs into one or a small handful of "selling expneses" categories that tell you little more than "so much money was spent overall." The categories are just too broad for useful analysis.

Accountants appreciation of marketing costs. Second, many accountants have not been adequately educated by marketers to appriciate the nature of all the various marketing costs. Accountants therefore, as should be ex-

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pected, have concerned themselves chiefly with getting all marketing cost assigned somewhere—sometimes just anywhere—often with little regard to the appropriateness of those assignments or the behavior of the costs.

Lack of objectives. Third, many business owners establish their marketing programs, not on carefully established objectives, but on the basis of tradition (like the Jones Company advertising program), industry practice, or rules of thumb. Many firms merely allocated a long-established percentage of their sales dollars to advertising or attempt to match a competitor's sales force on a one-to-one basis, instead of setting clear, measurable objectives for such marketing endeavors and thinking through the tasks necessary to accomplish them. Unfortunately, in the absence of clearly thought through task analyses and established objectives, its nearly impossible to measure the effectiveness of expenditures budgeted for marketing.

What's needed, then, for you to get the most for your marketing dollar is a marketing oriented cost accounting system, a proper assignment of marketing costs, as well as an understanding of the behavior of these costs, and a program of marketing objectives and results measurements.

A Marketing Oriented Cost Accounting System

To analyze your marketing costs effectively, you need an extensive chart of accounts. Although you should work with your financial and accounting people in the development of a chart specifically suited to your particular business, the following list should give you some idea of what ought to be included in a chart of marketing accounts for a "typical" manufacturing and marketing business:

Salaries and Commissions

Sales Representatives' Salaries
Sales Representatives' Commissions
Marketing Management and Administration
Sales Management
Credit and Collections
Marketing Research
Order Processing

Marketing Communications

Advertising
Sales Promotion
Merchandising
Publicity
Trade Shows and Exhibits
Direct Mail
Samples
Literature
Telephone Expense
Package Design

Shipping

Materials
Freight
Depreciation

Customer Service

Order Entry
Order Processing
Billing
Telephone Expense

Other Marketing Costs

Finished Goods Inventory and Inventory Carrying
Discounts and Markdowns
Marketing Research
Sales Office
Returns
Travel and Entertainment
Credit and Collections
Refunds and Returns
Warranties

A Detailed chart of marketing accounts similar to this one permits you to analyze marketing costs in detail. In addition to studying costs on such a basis, however, it is also desirable to be able to analyze costs on the basis of various marketing or sales units. Thus, the marketing accounting system should also provide for cost analysis on the basis of the following categories:

Market and Market Segment
Channel of Distribution
Product and Product Line
Geographic Region, Distibution Center, or Sales Territory
Account Type and Individual Account.

You may feel that your business isn't ready to break down your marketing expenditures in such detail. These charts should, however, at least give you an idea of the variety of costs a marketing program generates. It's not just selling and advertising expenses.

Nature, Behavior, and Assignment of Marketing Costs

In their nature and behavior, marketing costs do not differ fundamentally from other types of business costs. Like other costs, they are generally either fixed or variable.

Variable costs are those which vary in relation to the amount of an activity or function. The most familiar variable costs, of course, are the manufacturing costs of direct material and direct labor, the more of a given product made, the more material and labor necessary to make it. Some marketing costs are variable, for example, sales commissions, trade and cash discounts, outgoing freight charges—in short, anything that varies in direct proportion to the amount of sales.

Fixed Costs do no vary with the amount of product manufactured or sold or with any other function or activity. In the manufacturing area many overhead costs fall into this category. For example, the costs of lighting and heating the manufacturing plant are fixed.

In the marketing area there are fixed costs, too. District sales managers' salaries and salaries of the sales representatives fall into this category, as do many selling expenses, such as the cost of operating regional sales offices.

In addition to fixed manufacturing and marketing expenses, there are also fixed general expenses. This category typically includes the salaries of the chief operating officer and administrative staff, the cost of operating a company's electronic data processing system, the cost of maintaining the company's headquarters facility, depreciation, insurance, property taxes, and the like.

Contribution Accounting

Contribution accounting allows you to evaluate the contribution to your company's fixed costs made by any give business unit—be it a product or product line, a sales representative, a customer or market segment, a promotional campaign or trade show. Contribution accounting answers the question: "How much money does the unit contribute in excess of the costs (called direct costs) which would not exist if the unit were eliminated or not created?" It tells you how much the unit contributes to carrying overhead—or how much it will contribute to profit if all fixed costs are covered.

To measure the contribution to fixed expenses of a particular product, for example, you would:

1) Calculate the income generated by the product.

2) Subtract the variable expenses of direct labor, direct material, and any variable overhead.

3) Subtract other variable costs (sales commissions, outgoing freight charges, and the like).

4) Subtract fixed program costs for advertising that product (such as advertising costs for advertising that product alone).

Once you have subtracted all the variable costs associated with the product as well as the fixed program costs associated with the product, you have the amount available for contribution to the company's general expenses which that product generates. (To calculate the percentage of the program's contribution divide the contributiun by the income generated.) Here you can see one of the reasons for the detailed chart of accounts and the careful assignment of expenses.

Ericson, Inc.'s Contribution Accounting Analysis

Ericson, Inc. was considering hiring a product manager for an existing product. The product was not selling as well as Ericson's president thought it should. The estimated cost of having this product manager, including salary, benefit programs, and operating expenses (travel, added promotional expenses, etc.), was set at $50,000 per year. Current sales of the product were $150,000 per year, but the marketer believed that a good product manager could double that sales volume.

The existing contribution margin of the product was 40 pecent. That is, after subtracting direct material and direct labor costs as well as existing fixed expenses associated directly and solely with the product, the product generates forty cents of contribution on every dollar of sales. Should the marketer hire a manager for the product?

Using contribution accounting techniques, the marketer estimated the contribution the proposed move would make to company fixed expenses as follows:

Estimated Increased Annual Sales Volume	$150,000
X Existing 40% Contribution Rate	.40
= Contribution @ Existing Rate	$ 60,000
– Increased Expenses of New Product Manager	-50,000
= Contribution to Company's General Expenses	$10,000

In view of this positive contribution to carrying overhead, the president decided to hire the product manager.

A Continuing Program

Marketing programs which appear to be working effectively should be reevaluated periodically. Maybe you can improve them and get an even better return for your marketing dollar by emphasizing the strong points and eliminating weak areas, as did the president of the Acme Company. Furthermore, there is, of course, no guarantee that the most effective marketing program today will remain effective tomorrow. To keep a marketing program strong requires continuous measuring of program results and reevaluation of program effectiveness. You should never stop digging.

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DEVELOPING EFFECTIVE ADVERTISING STRATEGIES

Steps in Developing Effective Advertising Strategies

1) Identify potential clientele.
2) Determine geographical market.
3) Be aware of advertising budget.
4) Decide on advertising strategy.
5) Develop advertising strategy.
6) Implement advertising strategy.
7) Evaluate advertising strategy.

Criteria for Developing Effective Advertising Strategies

1) Begins with attention getter/Is original.
2) Includes product/service details.
3) Appeals to potential clientele and geographic market.
4) Encourages buying of product/service.
5) Is affordable to developer.

Instructor's Final Checklist

IMPLEMENTING ADVERTISING STRATEGIES

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

Note to Instructor: For a one-semester course, use the checklist statement(s) for Objective 1. For a one-year course, use the statement(s) for both objectives.

	Fully Accomplished	Not Accomplished	Not Applicable
Objective 1			
The student listed with 100% accuracy five advertising strategies for small business	☐	☐	☐
Objective 2			
In developing a small business advertising strategy, the student:			
a. Began with attention getter/Was original	☐	☐	☐
b. Included product/service details	☐	☐	☐
c. Appealed to potential clientele and geographic market	☐	☐	☐
d. Encouraged buying of product/service	☐	☐	☐

IDENTIFYING TYPES OF SMALL BUSINESS OWNERSHIP

OBJECTIVE

Given descriptions of four types of business ownership, accurately identify each.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that the ultimate success of a small business operation can be dependent on the type of ownership.

TEACHING STRATEGIES

Have students read materials on types of business ownership.

RESOURCES

Brown and Clow, General Business: Our Business and Economic World, pp. 176-186.

Brown and Warner, Economics of Our Free Enterprise System, pp. 192-200.

Everard and Burrow, Business Principles and Management, pp. 105-116.

Hutt, Creating a New Enterprise, pp. 27-30, 63-69.

Information Sheet, "Incorporating a Small Business," pp. 71-74.

Nelson, et al., Owning and Operating a Small Business, pp. 38-39.

Petersen, Economics of Work, pp. 68-75.

Petersen and Lewis, Free Enterprise Today, pp. 214-229.

Siropolis, Small Business Management, pp. 189-200, 125-139.

Small Business Administration, "Evaluating Franchise Opportunities."

Provide students with instruction sheets on proprietorship, partnership, and corporation. Have students evaluate what they learn with self-checks.	Kentucky Competency Based Vocational Education Module ES-30, "Types of Business Organization," Instruction Sheets 1, 2, and 3; Student Self-Checks 1, 2, and 3.
Invite a franchise owner/operator to discuss the reasons for and against choosing a franchise operation over the other three types of business organization.	Information Sheet, "Advantages/ Disadvantages of Franchising," p. 75.
Have students discuss the advantages/ disadvantages of proprietorship, partnership, corporation, and franchise ownnerships. Have them complete a worksheet on the advantages of the four types of business ownership.	Nelson, et al., Owning and Operating a Small Business, p. 40. Worksheets, "Advantages/ Disadvantages of Four Types of Business Ownership," pp. 76-77.

SUGGESTED EVALUATION TECHNIQUE

Provide students with descriptions of four types of business ownership (pp. 78-79) and have them accurately identify each.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Invite a panel of small business owners to discuss four types of business ownership (e.g., proprietorship, partnership, corporation, and franchise). Show the filmstrip "Legal Forms of Business Enterprise."

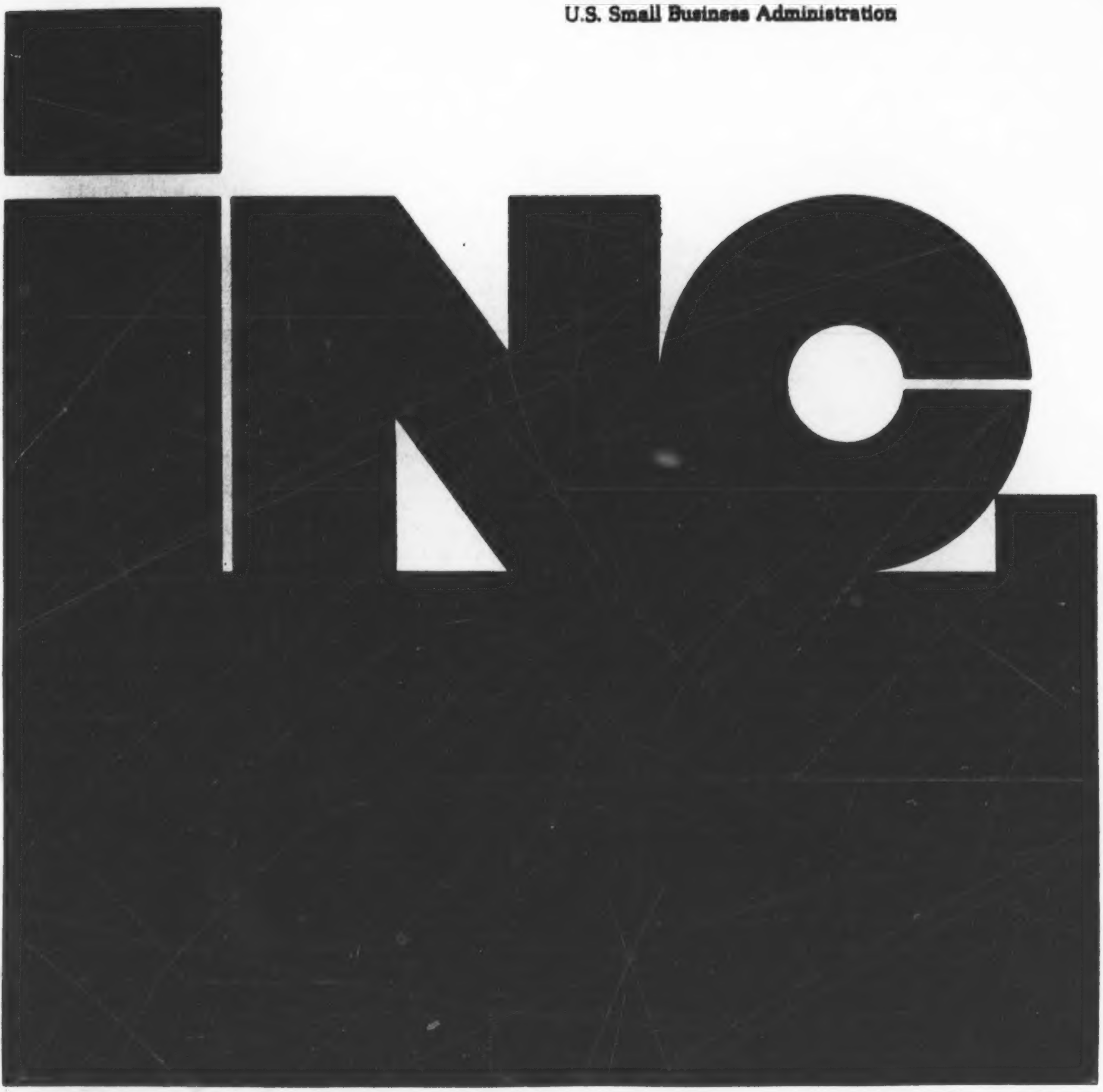
U.S. Small Business Administration
Office of
Business Development

Management Aids
Number 6.003

SBA

Incorporating a Small Business

Prepared by the
Office of the General Counsel
U.S. Small Business Administration



Summary

If you are the owner-manager of a small business you may have been wondering about the advisability of incorporating your business, particularly if you are seeking equity capital.

This *Aid* does not discuss the advantages and disadvantages of the corporate form; its purpose is to acquaint you with some of the basic steps involved once you have decided to incorporate.

This *Aid* is not to be considered a substitute for professional advice. Legal guidance will insure that (a) the articles of incorporation and the bylaws are tailored to the needs of your particular business enterprise, (b) you understand the various aspects of the tax obligations involved, and (c) you will be in compliance with the State, local, and Federal laws affecting the corporation.

Laws governing the procedure for obtaining a corporate charter vary among States. Detailed information about the requirements of your State can be obtained from the secretary or other official designated to supervise the granting of corporate charters.

Choosing the Location

The majority of small and medium-sized businesses, especially those whose trade is local in nature, find it advisable to obtain their charter from the State in which the greatest part of their business is conducted.

Out-of-State, or "foreign," incorporation often results in the additional payments of taxes and fees in another jurisdiction. Moreover, under the laws of many States the property of a foreign corporation is subject to less favorable treatment, especially in the area of attachment of corporate assets. This legal difference could prove especially hazardous to a small business.

On the other hand, you should look into possible benefits to be gained from incorporation in another State. Such factors as State taxes, restrictions on corporate powers and lines of business in which a company may engage, capital requirements, restrictions upon foreign corporations in your State, and so forth should be taken into consideration in selecting the State of incorporation. For example, you should be aware that some States require a foreign corporation to obtain a certificate to do business in their State. Without such certification the corporation may be deprived of the right to sue in those States.

The fee or organization tax charged for incorporation varies greatly from State to State.

Certificate Of Incorporation

Generally, the first step in the required procedure is preparation, by the incorporators, of a "certificate of incorporation." Most States used to require that the certificate be prepared by three or more legally qualified persons, but the modern trend is to require only one incorporator. An incorporator may, but not necessarily must, be an individual who will ultimately own stock in the corporation.

For purposes of expediting the filing of articles, "dummy" incorporators are often employed. These dummy incorporators are usually associated with a company that performs this service or with an attorney for the organizers. They typically elect their successors and resign at the meeting of the incorporators.

Many States have a standard certificate of incorporation form which may be used by small businesses. Copies of this form may be obtained from the designated State official who grants charters and, in some States, from local stationers as well. The following information is usually required:

1. The corporate name of the company. Legal requirements generally are (a) that the name chosen must not be so similar to the name of any other corporation authorized to do business in the State and (b) that the name chosen must not be deceptive so as to mislead the public. In order to be sure that the name you select is suitable, check out the availability of the name through the designated State official in each State in which you intend to do business before drawing up a certificate of incorporation. This check can be made through a service company. In some States, there is a procedure for reserving a name.

2. Purposes for which the corporation is formed. Several States permit very broad language, such as "the purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized." However, most States require more specific language in setting forth the purposes of the corporation. Even where State law does not require it, the better practice is to employ a "specific object" clause which spells out in broad descriptive terms the projected business enterprise. At the same time take care to allow for the possibility of territorial, market, or product expansion. In other words, the language should be broad enough to allow for expansion and

yet specific enough to convey a clear idea of the projected enterprise.

The use of a specific object clause, even where not required by State law, is advisable for several reasons. It will convey to financial institutions a clearer picture of the corporate enterprise and will prevent problems in qualifying the corporation to do business in other jurisdictions. Reference books or certificates of existing corporations can provide examples of such clauses.

3. Length of time for which the corporation is being formed. This may be a period of years or may be perpetual.

4. Names and addresses of incorporators. In certain States one or more of the incorporators is required to be a resident of the State within which the corporation is being organized.

5. Location of the registered office of the corporation in the State of incorporation. If you decide to obtain your charter from another State, you will be required to have an office there. However, instead of establishing an office, you may appoint an agent in that State to act for you. The agent will be required only to represent the corporation, to maintain a duplicate list of stockholders, and to receive or reply to suits brought against the corporation in the State of incorporation.

6. Maximum amount and type of capital stock which the corporation wishers authorization to issue. The proposed capital structure of the corporation should be set forth, including the number and classification of shares and the rights, preferences, and limitations of each class of stock.

7. Capital required at time of incorporation. Some States require that a specified percentage of the par value of the capital stock be paid in cash and banked to the credit of the corporation before the certificate of incorporation is submitted to the designated State official for approval.

8. Provisions for preemptive rights, if any, to be granted to the stockholders and restrictions, if any, on the transfer of shares.

9. Provisions for regulation of the internal affairs of the corporation.

10. Names and addresses of person who will serve as directors until the first meeting of stockholders or until their successors are elected and qualify.

11. The right to amend, alter, or repeal any provisions contained in the certificate of incorporation. This right is generally statutory, reserved to a majority or two-thirds of the stockholders. Still, it is customary to make it clear in the certificate.

If the designated State official determines that the name of the proposed corporation is satisfactory, that the certificate contains the necessary information and has been properly executed, and that there is nothing in the certificate or the corporation's proposed activities that violates State law or public policy, the charter will be issued.

Officers and Stockholders

Next, the stockholders must meet to complete the incorporation process. This meeting is extremely important. It is usually conducted by an attorney or someone familiar with corporate organizational procedure.

In the meeting the corporate bylaws are adopted and a board of directors is elected. This board of directors in turn will elect the officers who actually will have charge of the operations of the corporation—for example, the president, secretary, and treasurer. In small corporations, members of the board of directors frequently are elected as officers of the corporation.

Bylaws

The bylaws of the corporation may repeat some of the provisions of the charter and State statute but usually cover such items as the following:

1. Location of the principal office and other offices of the corporation.

2. Time, place, and required notice of annual and special meetings of stockholders. Also the necessary quorum and voting privileges of the stockholders.

3. Number of directors, their compensation, their term of office, the method of electing them, and the method of creating or filling vacancies on the board of directors.

4. Time and place of the regular and special director's meetings, as well as the notice and quorum requirements.

5. Method of selecting officers, their titles, duties, terms of office, and salaries.

6. Issuance and form of stock certificates, their transfers and their control in the company books.

7. Dividends, when and by whom they may be declared.

8. The fiscal year, the corporate seal, the authority to sign checks, and the preparation of the annual statement.

9. Procedure for amending the bylaws.

Special Tax Laws

At the time of the first meeting of the corporate board of directors and prior to issurance of any shares, you might consider adoption of a plan under a section of the Internal Revenue Code (IRC 1244) that grants ordinary rather than capital treatment of losses on certain "small business stock." Among the requirements of qualification as "section 1244 stock" are (1) the stock must be common stock, (2) the stock must be issued by the corporation for money or other property pursuant to a written plan containing several limitations, and (3) the amount of contribution received for the stock and equity capital of the corporation must not exceed maximum dollar limits.

You should be aware, also, of the possibility of electing subchapter S status (IRS 1371–1379). The purpose of subchapter S is to permit a "small business corporation" to elect to have its income taxed to the shareholders as if the corporation were a partnership. One objective is to overcome the double-tax feature of the present system of taxation of corporate income. Another purpose is to permit the shareholders to have the benefit of offsetting business losses by the corporation against the income of the shareholders.

Among the qualifying requirements for electing and maintaining "subchapter S" eligibility are that the corporation has no more than 10 shareholders, all of whom are individuals or estates; that there be no nonresident alien shareholders; that there be only one class of outstanding stock; that all shareholders consent to the election; and that a specified portion of the corporation's receipts be derived from actual business activity rather than passive investments. No limit is placed on the size of the corporation's income and assets.

If you plan to transfer property to a corporation in exchange for stock, you should realize that such a transfer is a taxable transaction unless the transfer complies with the provisions of IRC section 351.

Other Considerations

If your business is at present a sole proprietorship or partnership, you will need to secure a new taxpayer identification number and unemployment insurance account. You should find out in advance whether present licenses and leases will be transferable to the new corporate entity.

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INFORMATION SHEET
ENT-012

ADVANTAGES/DISADVANTAGES OF FRANCHISING

Advantages

1. Established business name.
2. Management and employee training provided.
3. Possibility of financial assistance.
4. Proven track record of parent company.
5. Possibility of consultation service and assistance.

Disadvantages

1. Limited individual freedom.
2. Obligation in terms of franchising fees.
3. Possibility of suffering from poor image of another franchise in the same company.

Adapted from Hutt, Creating a New Franchise, pp. 27-30.

ADVANTAGES/DISADVANTAGES OF FOUR TYPES OF BUSINESS OWNERSHIP

SOLE PROPRIETORSHIP	PARTNERSHIP	CORPORATION	FRANCHISE
Advantages: 1. low start-up costs 2. owner in direct control 3. all profits to owner 4. possible tax advantages	Advantages: 1. low start-up costs 2. broader management base 3. possibly better able to obtain additional capital than sole proprietorship 4. possible tax advantage 5. losses divided	Advantages: 1. limited liability 2. possibly specialized management 3. continuous existence 4. possible tax advantages 5. possibly easier to raise additional capital	Advantages: 1. established business name 2. management and employee training provided 3. possible financial assistance 4. proven track record of parent company 5. possibility of consultation service and assistance
Disadvantages: 1. unlimited liability 2. lack of continuity 3. difficult to raise additional capital 4. all losses to owner	Disadvantages: 1. unlimited liability 2. lack of continuity 3. profits divided 4. hard to find suitable partners 5. divided authority and control	Disadvantages: 1. closely regulated 2. extensive recordkeeping 3. usually most expensive to start 4. double taxation	Disadvantages: 1. limited individual freedom 2. obligations in terms of franchising fees 3. possibility of suffering from image of another franchise in the same company

ADVANTAGES/DISADVANTAGES OF FOUR TYPES OF BUSINESS OWNERSHIP

SOLE PROPRIETORSHIP	PARTNERSHIP	CORPORATION	FRANCHISE
Advantages:	Advantages:	Advantages:	Advantages:
Disadvantages:	Disadvantages:	Disadvantages:	Disadvantages:

SUGGESTED EVALUATION TECHNIQUE
ENT-012

TYPES OF BUSINESS OWNERSHIP

DIRECTIONS: Read the descriptions of the types of business ownership. Identify each one.

Ownership A

1. It is a type of business ownership easy to start.
2. It has the advantage of more available capital.
3. It can profit from the skills of more than one person.
4. In itself, this type of business is not taxed.
5. It is owned by two or more persons.

Ownership A is a ______________ type of business ownership.

Ownership B

1. The most a person can lose is the stock he/she has in the business.
2. It can operate for as long as it is profitable.
3. Transfer of ownership is handled through the selling of stock.
4. It usually requires a great deal of money and time to get it started.
5. It is owned by the stockholders in the business.

Ownership B is a ______________ type of business ownership.

Ownership C

1. Obtaining funds for beginning the business is sometimes difficult.
2. The entire burden of management is on one person.
3. The start up time for the business is minimal; it begins when the first transaction is completed.
4. It is the most popular form of small business ownership.
5. It is owned by only one person.

Ownership C is a ______________ type of business ownership.

Ownership D

1. Financial assistance may be available.
2. There is limited individual freedom.
3. You have the name of an established business.
4. Management and employee training are provided.
5. Consultation service and assistance may be available.

Ownership D is a _______________ type of business ownership.

Answers:

Ownership A - Partnership
Ownership B - Corporation
Ownership C - Proprietorship
Ownership D - Franchise

Instructor's Final Checklist

IDENTIFYING TYPES OF SMALL BUSINESS OWNERSHIP

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
When given descriptions of four types of business ownership, the student accurately identified each	[ ]	[ ]	[ ]

Instructor's Guide Sheet ENT-013

DETERMINING PROS AND CONS OF STARTING A NEW BUSINESS AND BUYING AN EXISTING BUSINESS

OBJECTIVE

Without the use of resources, accurately list two pros and two cons for starting a new business and for buying an existing business.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that there are both pros and cons in starting a new business and buying an existing business and that the choice of which to do should be dependent on the situation.

TEACHING STRATEGIES	RESOURCES
Have students read materials on starting a new business and buying an existing business.	Hutt, Creating a New Enterprise, pp. 24-27. Osgood, Business Planning Guide, pp. 11-12. Samson, et al., Retail Merchandising, pp. 74-75. Siropolis, Small Business Management, pp. 98-111, 124-139.
Invite a panel of small business owners to present and discuss the pros and cons of starting a new business and buying an existing business.	Information Sheet, "Pros and Cons of Starting a New Business and Buying an Existing Business," p. 83.

SUGGESTED EVALUATION TECHNIQUE

Have students accurately list two pros and two cons for starting a new business and for buying an existing business.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITIES

Conduct a chapter member debate on the pros and cons of starting a new business and buying an existing business.

Show the filmstrip "Roads to Entrepreneurship." Give examples of local/area businesspeople who bought an existing business and started their own business.

INFORMATION SHEET
ENT-013

PROS AND CONS OF STARTING A NEW BUSINESS AND BUYING AN EXISTING BUSINESS

I. Starting a new business

A. Pros

1. Freedom to make all business decisions.
2. Opportunity to develop business image.
3. Opportunity to choose business location and site.
4. Opportunity to select physical setting.

B. Cons

1. No previous business record.
2. No customer base from which to draw.
3. Time intensive development phase.
4. Difficulty in securing capital.
5. Employees untrained.

II. Buying an existing business

A. Pros

1. Previous business record.
2. Established customer base.
3. Established location.
4. Established relationships with bank and supplier(s).
5. Trained employees.

B. Cons

1. May have a poor business record.
2. May have poor customer relations.
3. May be in poor location.
4. May need facility and/or equipment upgrading and repair.

Adapted from Hutt, Creating a New Enterprise, pp. 24-27.

Instructor's Final Checklist **ENT-013**

DETERMINING PROS AND CONS OF STARTING A NEW BUSINESS AND BUYING AN EXISTING BUSINESS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately listed two pros and two cons for starting a new business	[ ]	[ ]	[ ]
The student accurately listed two pros and two cons for buying an existing business.	[ ]	[ ]	[ ]

OBTAINING LICENSES AND PERMITS

OBJECTIVE

Given the name of a type of small business, accurately identify a minimum of two licenses/permits needed to begin the business.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that business licenses and permits contribute to the safety and legal operation of small business.

TEACHING STRATEGIES	RESOURCES
Have students read materials on obtaining licenses and permits.	Everard and Burrow, *Business Principles and Management*, pp. 71-73. Information Sheet, "Licenses and Permits for Business Operations," p. 87. Kentucky Competency Based Vocational Education Module BK-47A, "Securing and Completing Forms Necessary for Starting a Business." Kentucky Department of Economic Development, "Business Information Clearinghouse." McFarlane, *Getting Down to Business: What's It All About?* pp. 29-30.
Invite officials from the local/area city clerk's office and local/area health department to discuss and show examples of the kinds of local/area licenses and permits necessary to start a business.	

SUGGESTED EVALUATION TECHNIQUE

Provide students with the name of a type of small business, (e.g., pizza restaurant, ladies boutique, tire outlet). Have them accurately identify a minimum of two licenses/permits needed to begin the business.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Develop a bulletin board display of the various licenses and permits necessary to starting small businesses.

INFORMATION SHEET
ENT-014

LICENSES AND PERMITS FOR BUSINESS OPERATION

Alcohol Beverage License

Building and Occupancy Permits

Fire Inspection Approval

Health Permits and Plumbing Inspection

Occupational Tax Forms

State and Federal Worker's Permits

- Social Security Withholding
- Unemployment Tax Forms
- Worker's Compensation

Instructor's Final Checklist

OBTAINING LICENSES AND PERMITS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately identified a minimum of two licenses/permits needed to begin a given type of small business	[ ]	[ ]	[ ]

Instructor's Guide Sheet ENT-015

DEVELOPING A BUSINESS PLAN FOR SMALL BUSINESS

OBJECTIVE

Given an outline for developing a small business plan, develop one.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of a complete business plan to the success of a small business.

TEACHING STRATEGIES	RESOURCES
Have students read materials on developing a business plan for small business.	Hanson, *Entrepreneurship: A Career Alternative*, p. 16. Hutt, *Creating a New Enterprise*, p. 11. Kentucky Competency Based Vocational Education Task Assignment Sheet PA-PO-15, "Writing a Plan for Starting a Small Business." Nelson, et al., *Owning and Operating a Small Business*, pp. 43-45. Osgood, *Business Planning Guide*, pp. 1-2. Siropolis, *Small Business Management*, pp. 154-156. Small Business Administration, "Business Plan for Small Manufacturers," "Business Plan for Small Construction Firms," "Business Plan for Retailers," and "Business Plan for Small Service Firms."
Provide students with an activity sheet on beginning a small business.	Activity Sheet, "Starting Your Own Business," pp. 91-92.

Present an outline for developing an effective business plan. Discuss with students.

Osgood, Business Planning Guide, "Suggested Outline of Business Plan," p. 3.

Siropolis, Small Business Management, "Suggested Steps to Take in Developing Your Business Plan," pp. 157-158.

Invite an entrepreneur to present and explain his/her written business plan.

SUGGESTED EVALUATION TECHNIQUE

Provide students with an outline for a small business plan (ENT-015, Strategy 3). Have them choose a small business and develop a business plan for it. Evaluate it using the Instructor's Final Checklist.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Sponsor a contest for the development of the most effective business plan for a chapter/school small business.

ACTIVITY SHEET
ENT-015

STARTING YOUR OWN BUSINESS

I. Name your business.

II. What will you be doing in your business?

III. Before you begin, there are things you may need to buy or rent. Check the ones for which you may need money.

____ A. Place to house the new business.

____ B. Special equipment. List below.

1.

2.

3.

4.

5.

____ C. Material for making the product or providing the service.

____ D. Money for wages.

____ E. Furniture, tools, phone, paper, pencils, and other small equipment.

____ F. Cars, trucks, transportation.

____ G. Clothes, uniforms.

____ H. Other. (Specify) ____

IV. How much money will you need? (The following prices are not real. They could be higher or lower.)

A. If you checked A in Part III, write $400 in the space to the right. ________________

B. If you checked B in Part III, calculate $100 for each piece of equipment and write the total in the space to the right. ________________

C. If you checked C in Part III, write $75 in the space to the right. ____________________

D. If you checked D in Part III, write $250 in the space to the right. ____________________

E. If you checked E in Part III, write $300 in the space to the right. ____________________

F. If you checked F in Part III, write $500 in the space to the right. ____________________

G. If you checked G in Part III, write $150 in the space to the right. ____________________

H. If you checked H in Part III, write $75 in the space to the right. ____________________

V. How much money will it take to begin business? (total A through H) Write the amount in the space to the right. ____________________

VI. How much money do you have now? Write the amount in the space to the right. ____________________

VII. How much money do you need to begin your business? (Subtract the amount in Part VI from the amount in Part V). Write the amount in the space to the right. ____________________

VIII. Where can you get the money that you need?

IX. Where can you get advice about obtaining the money that you need to begin your business?

Adapted from Hiatt, Introduction to Entrepreneurship, pp. 193-194.

Instructor's Final Checklist

DEVELOPING A BUSINESS PLAN FOR SMALL BUSINESS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

When developing a small business plan, the student included:

	Fully Accomplished	Not Accomplished	Not Applicable
a. Name of business	☐	☐	☐
b. Statement of purpose(s)	☐	☐	☐
c. Business description including location and market	☐	☐	☐
d. Financial data including sources of funding, equipment list, and projected income	☐	☐	☐

Instructor's Guide Sheet

ENT-016

SELECTING A LOCATION

OBJECTIVE

Without the use of resources, list four criteria for selecting a small business location.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate how the selection of a business location affects business success.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students read materials on selecting a small business location.	Hutt, Creating a New Enterprise, pp. 85-88. Information Sheets, "Factors in Considering a Shopping Center Location," pp. 97-100; "Store Location: 'Little Things' Mean a Lot," pp. 101-104; "Using a Traffic Study to Select a Retail Site," pp. 105-110." McFarlane, Getting Down to Business: What's It All About? pp. 23-25. Nelson, et al., Owning and Operating a Small Business, pp. 23-25. Osgood, Business Planning Guide, pp. 19-20. Samson, et al., Retail Merchandising, pp. 82-92. Siropolis, Small Business Management, pp. 218-228. Small Business Administration, "Locating or Relocating Your Business."

Have each student list five small businesses and discuss the advantages/disadvantages of the location of each.	
Invite a business person who has recently changed business locations to discuss why the business was moved.	
Lead students in developing a list of criteria for determining appropriate locations for small businesses.	Hutt, Creating a New Enterprise, p. 88.

SUGGESTED EVALUATION TECHNIQUE

Have students accurately list four criteria for selecting a small business location.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Ask the local/area city/county planner to display and explain a map of the local/county zones for small business.

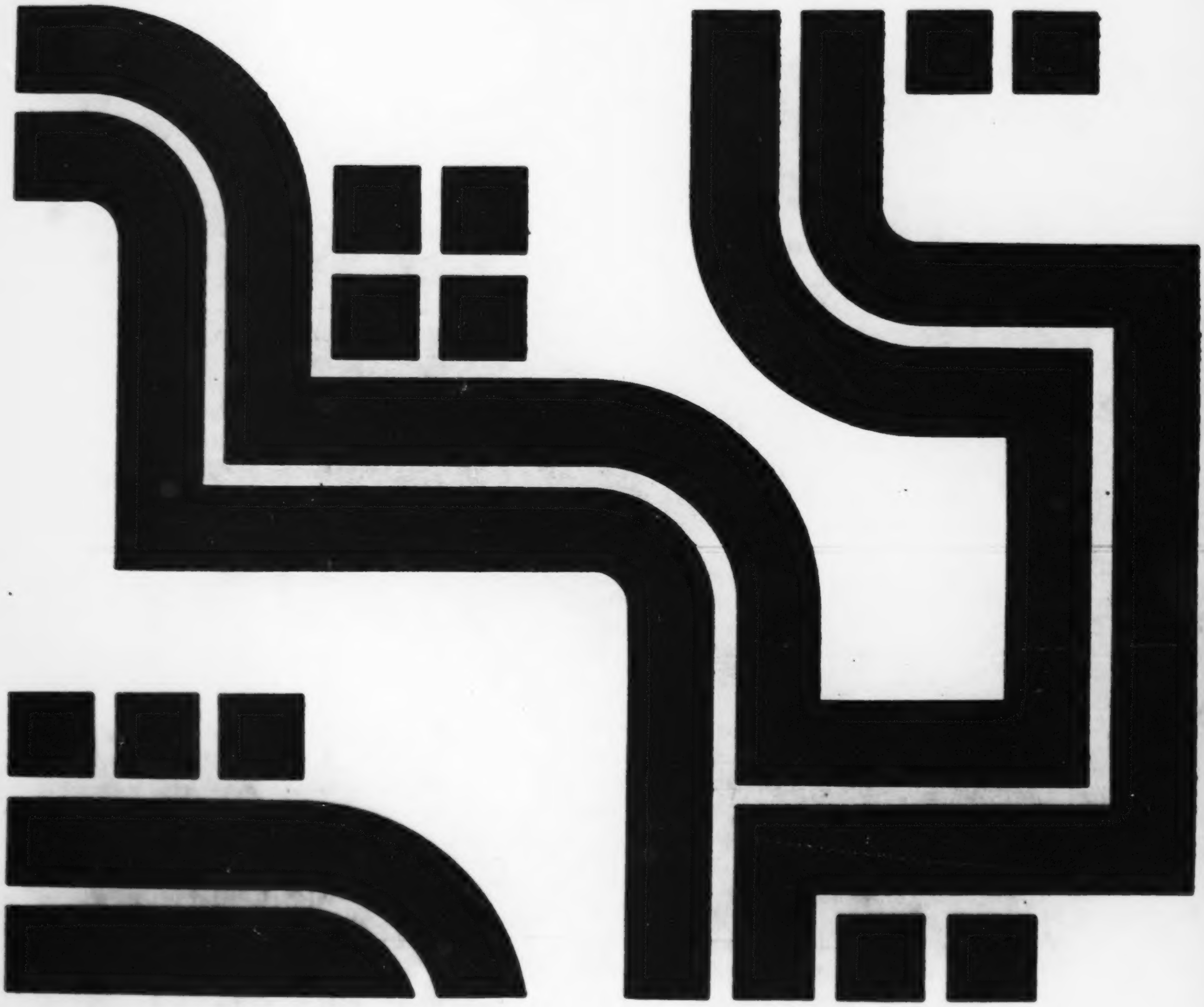
U.S. Small Business Administration
Management Assistance
Support Services

Management Aids
Number 2.017

SBA

Factors In Considering A Shopping Center Location

By J. Ross McKeever and Frank H. Spink, Jr.
ULI-the Urban Land Institute
Washington, D.C.



Summary

Small retailers who seek new sites for their stores, or service shops, should add the shopping center to their lists of possible locations. When they do, however, they should be aware that the advantages of the shopping center for one type of retailing may be disadvantages for another.

The purpose of this Aid is to provide small retailers with background information so that they can decide whether to locate their stores in shopping centers should such a decision be necessary. Among other things, it discusses the landlord-tenant relationship and the cost picture. Both of these factors are more complicated in shopping centers than in other locations.

Where you locate your store is one of your most important decisions. This fact is true whether you are opening a new store, starting a second outlet, or renewing your present lease. The problem is to find the right location for the right undertaking because a location can make or break a business.

Different stores have different locational requirements. You would not put a toy store in a retirement village or start a garden supply store in a rental apartment house district. The customers you serve, the things they buy, the way they reach your store, the adjacent stores, and the neighborhood all bear upon the location. These factors must be related to the types and characteristics of shopping centers when you are considering a shopping center as a site.

Shopping Center Characteristics

Shopping centers are distinctly different from the other two major locations—that is, downtown and local business strips. The shopping center building is pre-planned as a merchandising unit for interplay among tenants. Its site is deliberately selected by the developer for easy access to pull customers from a trade area. It has on-site parking as a common feature of the layout. The amount of parking space is directly related to the retail area.

Customers like the shopping center's convenience. They drive in, park, and walk to their destination in relative safety and speed. Some shopping centers also provide weather protection and most provide an atmosphere created for shopping comfort. For the customer, the shopping center has great appeal.

For the merchant making a decision whether or not to locate in a shopping center, these "plus" characteristics must be related to the limitations placed upon you as a tenant. In a [illegible] er, a tenant is part of a merchant team. As such, you must pay your pro rata share of the budget for the team effort. You must keep store hours, light your windows, and place your signs within established rules.

What Are Your Chances?

Whether or not a small retailer can get into a particular shopping center depends on the market and management. A small shopping center may need only one children's shoe store, for example, while a regional center may expect enough business for several. The management aspect is simple to state: Developers and owners of shopping centers look for successful retailers.

In finding tenants whose line of goods will meet the needs of the desired market, the developer-owner first signs on a prestige merchant as the lead tenant. Then, the developer selects other types of stores that will complement each other. In this way, a "tenant mix" offers a varied array of merchandise. Thus, the center's competitive strength is bolstered against other centers as well as supplying the market area's needs.

To finance a center, the developer needs major leases from companies with strong credit ratings. The developer's own lenders favor tenant rosters that include the triple-A ratings of national chains. However, local merchants with good business records and proven understanding of the local markets have a good chance of being considered by a shopping center developer.

But even so, a small independent retailer can sometimes play "hard to get." When most spaces are filled, the developer may need **you** to help fill the rest of them.

If you are considering a shopping center for a first-store venture you may have trouble. Your financial backing and merchandising experience may be unproved to the owner-developer. Your problem is to convince the developer that the new store has a reasonable chance of success and will help the "tenant mix."

What Can the Center Do for You?

Suppose that the owner-developer of a shopping center asks you to be a tenant. In considering the offer, you would need to make sure of what you can do in the center. What rules will there be on your operation? In exchange for the rules, what will the center do for you?

Even more important, you must consider the trade area, the location of your competition, and the location of your spa in the center. These factors help to determine how much business you can expect to do in the center.

In a Neighborhood Shopping Center, the leading tenant is a supermarket or drug store. The typical leasable space is 50,000 square feet but may range from 30,000 to 100,000 square feet. The typical site area is from 3 to 10 acres. The minimum trade population is 2,500 to 40,000.

In a Community Shopping Center, the leading tenant is a variety/junior department store or discount department store. The typical leasable space is 150,000 square feet but may range from 100,000 to 300,000 square feet. The typical site area is 10 to 30 acres. The minimum trade population is 40,000 to 150,000.

In a Regional Shopping Center, the leading tenant is one or more full-line department stores. The typical leasable space is 400,000 square feet with a range from 300,000 to more than 1,000,000 square feet. The typical site area is 30 to 50 acres. The minimum trade population is 150,000 or more. When the regional center exceeds 750,000 square feet and includes three or more department stores, it becomes a SUPER-REGIONAL CENTER.

The Center's Location. In examining the center's location, look for answers to questions such as these:

Can you hold old customers and attract new ones?

Would the center offer the best sales volume potential for your kind of merchandise?

Can you benefit enough from the center's access to a market? If so, can you produce the appeal that will make the center's customers come to your store?

Can you deal with your logical competition?

To help answer such questions, you need to check out: (1) the trade area and its growth prospects; (2) the general income level in the trade area; (3) the number of households; and (4) the share of various age groups in the population. If your line is clothes for young women, for example, you would not want to locate in a center whose market area contains a high percentage of retired persons.

Make your own analysis of the market which the developer expects to reach. In this respect, money for professional help is well spent, especially when the research indicates that the center is not right for your type of operation.

Your Space. Determine where your space will be. Your location in the center is important. Do you need to be in the main flow of customers as they pass between the stores with the greatest customer pull? Who will be your neighbors? What will be their effect on your sales?

How much space is also important. Using your experience, you can determine the amount of space you will need to handle the sales volume you expect to have in the shopping center. And, of course, the amount of space will determine your rent. Many merchants need to rethink their space requirements when locating in a shopping center. Rents are typically much higher and, therefore, space must be used very efficiently.*

"Total Rent" In most non-shopping center locations rent is a fixed amount which has no relationship to sales volume. In shopping centers the "rent" is usually stated as a minimum guaranteed rent per square foot of leased area against a percentage. Typically, while this is between 5 and 7 percent of gross sales, it varies by type of business and other factors. This means that if the rents as calculated by the percentage of sales is higher than the guaranteed rent, the higher amount is the rent. If it is lower than the guaranteed rent, then the guaranteed rent is the amount paid.

But this guarantee is not the end. In addition, you may have to pay dues to the center's merchant association. You may have to pay for maintenance of common areas. Consider your rent, then, in terms of "total rent." If, and when, this "total rent" is more than your present rent, your space in the center, of course, will have to draw sales enough to justify the added cost.

FINISHING OUT. Generally, the owner furnishes the bare space. You do the "finishing out" at your own expense. In completing your store to suite your needs, you pay for light fixtures, counters, shelves, painting, floor coverings. In addition, you may have to install your own heating and cooling units. (Your lease should be long enough to pay out your "finishing out" expense.)

An innovation is the "tenant allowance." By this system, landloards provide a cost allowance towards completion of space. It is for store fronts, ceiling treatment, and wall coverings. The allowance is a percentage of their cost and is spelled out in a dollar amount in the lease.

Some developers help tenants plan store fronts, exterior signs, and interior color schemes. They provide this service to insure store fronts that add to the center's image rather than subtracting from it.

Types of Shopping Centers

Because each planned shopping center is built around a major tenant, centers are classed, in part, according to this leading tenant. According to tenant makeup and size, there

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Reprint 1984

are three types: neighborhood, community, and regional.

Neighborhood. The supermarket or the drugstore is the leading tenant in a neighborhood center. This type is the smallest in size among shopping centers. It caters to the convenience needs of a neighborhood.

Community. Variety, junior department stores, or discount department stores lead in the next bigger type - the community center. Here, you find room also for more specialty shops, need for wider price ranges, for greater style assortments, and for more impulse-sale items. In recent years the community center has also been designed around the home improvement department store which combine hardware, lumber, electrical, plumbing, flooring, building materials, garden supplies, and a variety of other goods under one roof. The shops that are grouped around this type of anchor tend to be similar in character and may include custom kitchen and bath shops, upholstery, bedding, drapery, and other such shops. While this type of center tends to meet the Community Shopping Center definition as to floor area and site size, its market may be more like a regional center.

Regional. The department store, with its prestige, is the leader in the regional center - the largest type of shopping center. When you find that a second or third department store is also locating in such a center, you will know the site has been selected to draw from the widest possible market area. Super-Regional centers have been developed with as many as 5 department stores. You will find, too, that the smaller tenants are picked to offer a range of goods and services approaching the appeal once found only downtown.

The latest development in regional shopping centers is the enclosed mall. This type of center is designed to shut out the weather and to serve a larger trade area than other regional centers. Customers enjoy the open store fronts, the easy entrance, and the "all-weather" shopping. Tenants enjoy more center-wide promotions because of weather control.

An enclosed air-conditioned mall enables you to merchandise the full width of your store. The whole store becomes a display area, eliminating window backing and expensive display settings. You can rely on sliding doors or an overhead open drop grill for locking up the store.

If you are considering a mall, you should weigh the benefits against costs. At the outset, it may be difficult to measure savings, such as the elimination of store fronts, against costs, for example the cost for heating and air-conditioning in the enclosed mall.

Specialty Theme Shopping Centers. In addition to the three major categories of shopping centers new types of centers are evolving that have been called specialty or theme centers. In general these centers do not have a major anchor tenant. There is a greater percentage of restaurants and specialty food stores, the other stores tend to be highly specialized with more imported goods, custom crafted goods, designer clothes etc. Also a greater number of the merchants are independents. Unusual and interesting architectural design is a normal characteristic and frequently a tourist market rather than a resident market exists.

U.S. GPO 1984-490.942.10004

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U.S. Small Business Administration
Office of
Business Development

Management Aids
Number 2.024

SBA

Store Location: "Little Things" Mean A Lot

By Jeffrey P. Davidson
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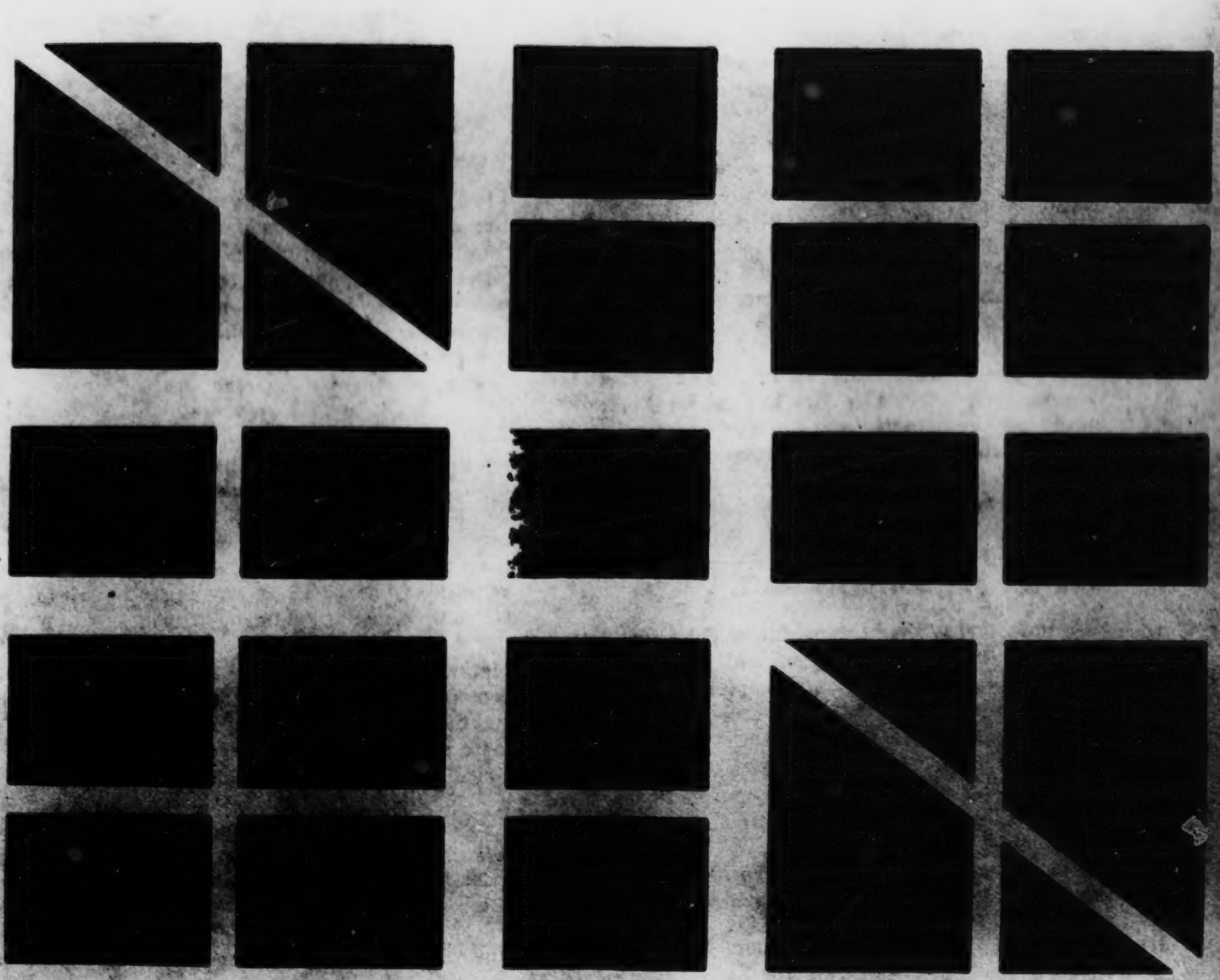

Summary

The choice of a store location has a profound effect on the entire business life of a retail operation. A bad choice may all but guarantee failure, a good choice success.

This Aid takes up site selection criteria, such as retail compatibility and zoning, that the small store owner-manager must consider after making basic economic, demographic, and traffic analyses. It offers questions the retailer must ask (and find answers to) before making the all important choice of store location.

The first step in choosing a retail business location takes place in your head. Before you do anything else, define your type of business in the broadest terms and determine your long term objectives. Write them down. This exercise will help you greatly later in choosing a retail location.

In picking a store site, many store owners believe that it's enough to learn about the demographics ("people information" like age, income, family size, etc.) of the population, about the kind of competition they'll be facing, and about traffic patterns in the area they're considering. Beyond a doubt these factors are basic to all retail location analysis.

Once you've spotted a tentative location using these factors, however, you've only done half the job. Before you make a commitment to moving in and setting up, you must carefully check several more aspects of the location to help insure your satisfaction with—and most importantly your success at—the site you've chosen.

Retail Compatibility

How important is retail compatibility? For a small retail store in its first year of operation, with limited funds for advertising and promoting, retail compatibility can be the most important factor in the survival of the store.

Will you be located next to businesses that will generate traffic for your store? Or will you be located near businesses that may clash with your?

For example, if you offer "shoppers goods" (items such as men's and women's clothing, major appliances, or expensive jewelry), the best location is near other stores carrying shoppers goods. Conversely, locating your shopper's goods store in a "convenience goods" area or center is not recommended. (Convience goods stores include, amoung other, supermarkets, hardware stores, bakeries, package stores, and drug stores.)

Take a look at shopping centers in your area. Invariably, you'll find a clothing or shoe store — in trouble — in an otherwise convience goods shopping center.

On the other hand, with the advent of the "super" mall and regional shopping center, shoppers goods and convenience goods outlets may now be found co-existing easily under the same roof. In this situation, it is still important to be located in a section of the shopping complex that is conducive to what you're selling. For example, a pet store should not be located immediately adjacent to a restaurant, dress shop, or salon. You would want to locate a gift shop near places like department stores, theaters, restaurants, — in short, any place where lines of patrons may form, giving potential customers several minutes to look in the gift shop's display windows.

Merchants' Associations

Most first time business owners have no idea how effective a strong merchant's association can be in promoting and maintaining the business in a given area. Always find out about the merchant's association. The presence of an effective merchants' association can strengthen your business and save you money through group advertising programs, group insurance plans, and collective security measures.

A strong merchants association can accomplish through group strength what an individual store owner couldn't even dream of. Some associations have induced city planners to add highway exits near their shopping center. Other have lobbied for—and received—funds from cities to remodel their shopping centers, including extension of parking lots, refacing of buildings, and installation of better lighting.

Merchants' associations can be particulary effective in promoting of stores using common themes or events and during holiday seasons. The collective draw from these promotions is usually several times that which a single retailer could have mustered.

How can you determine if the retail location you're considering has the benefit of an effective merchants' association? Ask other store owners in the area. Find out:

How many members the association has;

Who the officers are:
How often the group meets:
What the yearly dues are; and
What specifically, it has accomplished in the last 12 months.

Ask to see a copy of the last meeting minutes. Determine what percentage of the members were in attendance.

What if there is no merchants' association? Generally (though not always) a shopping area or center with no merchants' association, or an ineffective one, is on the decline. You'll probably see extensive litter or debris in the area, vacant stores, a parking lot in need of repair, and similar symptoms. You should shun locations with these warning signs. With a little on-site investigation, they're easy to avoid.

Responsiveness of the Landlord

Directly related to the appearance of a retail location is the responsiveness of the landlord to the individual merchant's needs. Unfortunately, some landlords of retail business properties actually hinder the operation of their tenants' businesses. They are often, in fact, responsible for the demise of their properties.

By restricting the placement and size of signs, by foregoing or ignoring needed maintenance and repairs, by renting adjacent retail spaces to incompatible — or worse, directly competing — businesses, landlords may cripple a retailer's attempts to increase business.

Sometimes landlords lack the funds to maintain their properties. Rather than continuing to "invest" in their holdings by maintaining a proper appearance for their buildings and supporting their tenants, they try to "squeeze" the property for whatever they can get.

To find out if a landlord is responsive to the needs of the retail tentants talk to the tenants before you commit to moving in yourself. Ask them: 1) Does the landlord return calls in a reasonable period and send service people quickly? 2) Is it necessary to nag the landlord just to get routine maintenance taken care of? 3) Does the landlord just collect the rent and disappear, or is he or she sympathetic to the needs of the tentants? 4) Does the landlord have any policies that hamper marketing innovations?

In addition to speaking with current tenants, talk to previous tenants of the location you have in mind. You'll probably come up with a lot of helpful information. Find out what businesses they were in and why they left. Did they fail or just move? What support or hinderances did the landlord provide? If the opportunity presented itself, would they be retail tenants of this landlord again?

Zoning and Planning

Your town's zoning commission will be happy to provide you with the latest "mapping" of the retail location and surrounding area that you are considering. Here are some questions to consider:

Are there restrictions that will limit or hamper your operations?

Will construction or changes in city traffic or new highways present barriers to your store?

Will any competitive advantages you currently find at the location you're considering be diminished by zoning changes that will be advantageous for competitors or even allow new competitors to enter your trade area?

Most zoning boards, along with economic/regional development committees, plan several years in advance. They can probably provide you with valuable insights to help you decide among tentative retail locations.

Leases

Directly related to zoning is your intended length of stay and your lease agreement. Before you enter into any rigid lease agreement, you must get information on future zoning plans and decide how long you wish to remain at the location under consideration:

Do you plan to operate the business in your first location indefinitely or have you set a given number of years as a limit?

If your business is successful, will you be able to expand at this location?

Is your lease flexible, so that you have an option to renew after a specified number of years? (On the other hand, is the lease of limited duration so, if need be, you may seek another location?)

Study the proposed lease agreement carefully. Get advice from your lawyer or other experts. Does the agreement:

Peg rent to sales volume (with a definite ceiling) or is rent merely fixed?

Protect you as well as the property owner?

Put in writing the promises the property owner has made about repairs, construction and reconstruction, decorating, alteration, and maintenance?

Contain prohibitions against subleasing?

Consider these factors *before* you settle on a location.

Other Considerations

A host of other considerations have varying importance in choosing a retail location, depending on your line of business. The following questions, while they certainly don't exhaust all possibilities, may help you decide on a retail location:

How much retail, office, storage or workroom space do you need?

Is parking space available and adequate?

Do you require special lighting, heating or cooling, or other installations?

Will your advertising expenses be much higher if you choose a relatively remote location?

Is the area served by public transportation?

Can the area serve as a source of supply of employees?

Is there adequate fire and police protection?

Will sanitation or utility supply be a problem?

Is exterior lighting in the area adequate to attract evening shoppers and make them feel safe?

Are customer restroom facilities available?

Is the store easily accessible?

Does the store have awnings or decks to provide shelter during bad weather?

Will crime insurance be prohibitively expensive?

Do you plan to provide pick up or delivery?

Is the trade area heavily dependent on seasonal business?

Is the location convenient to where you live?

Do the people you want for customers live nearby?

Is the population density of the area sufficient?

Help in Choosing a Location

Choosing a retail location is, at best, a risky undertaking. Considering the consequences of choosing a location that proves to be unsuitable, it pays to get as much assistance as possible.

The local chamber of commerce in a city of more than 125,000 usually has a division devoted primarily to assisting budding owner-managers in finding suitable locations for their businesses. This is a free service that suprisingly few people take advantage of.

The U.S. Small Business Administration (SBA) has field offices located throughout the country. SBA field offices can provide free counseling assistance, literature, and information to help you select a retail site. (See your local directory under "U.S. Government.")

You may wish to hire a consultant to analyze two or three locations that you have selected. It costs less if you provide the consultant with preselected potential locations than to have him or her initate an open-ended search for a location. The business school of a nearby college or university may also be able to provide help.

Other sources of information on potential locations include bankers and lawyers, who may have been in position to have observed over an extended period of time many locations where other clients previously did business. Realtors can also provide information on location. Remember though, their compensation is based upon commissions for renting property.

Locate in Haste, Repent at Leisure

Selection of a retail location requires time and careful consideration. It should not be done in haste just to coincide, say, with a loan approval. If you haven't found a suitable location, don't plan to open until you're sure you've got what you want. Put your plans on hold, don't just settle for a location you hope might work out. A few months delay is only a minor setback compared to the massive—often fatal—problems that occur from operating a retail business in a poor location.

Copies of this Aid and other publications are available from SBA for a small processing fee. Order forms 115A and 115B can be obtained free from SBA, P.O. Box 15434, Fort Worth, TX 76119. Aids may be condensed or reproduced. They may not be altered to imply approval by SBA of any private organization, product or service. If material is reused, credit to SBA will be appreciated.

☆U.S. GPO 1986-491-'55

U.S. Small Business Administration
Management Assistance
Support Services

Management Aids
Number 2.021

SBA

Using a Traffic Study to Select a Retail Site

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College of Business
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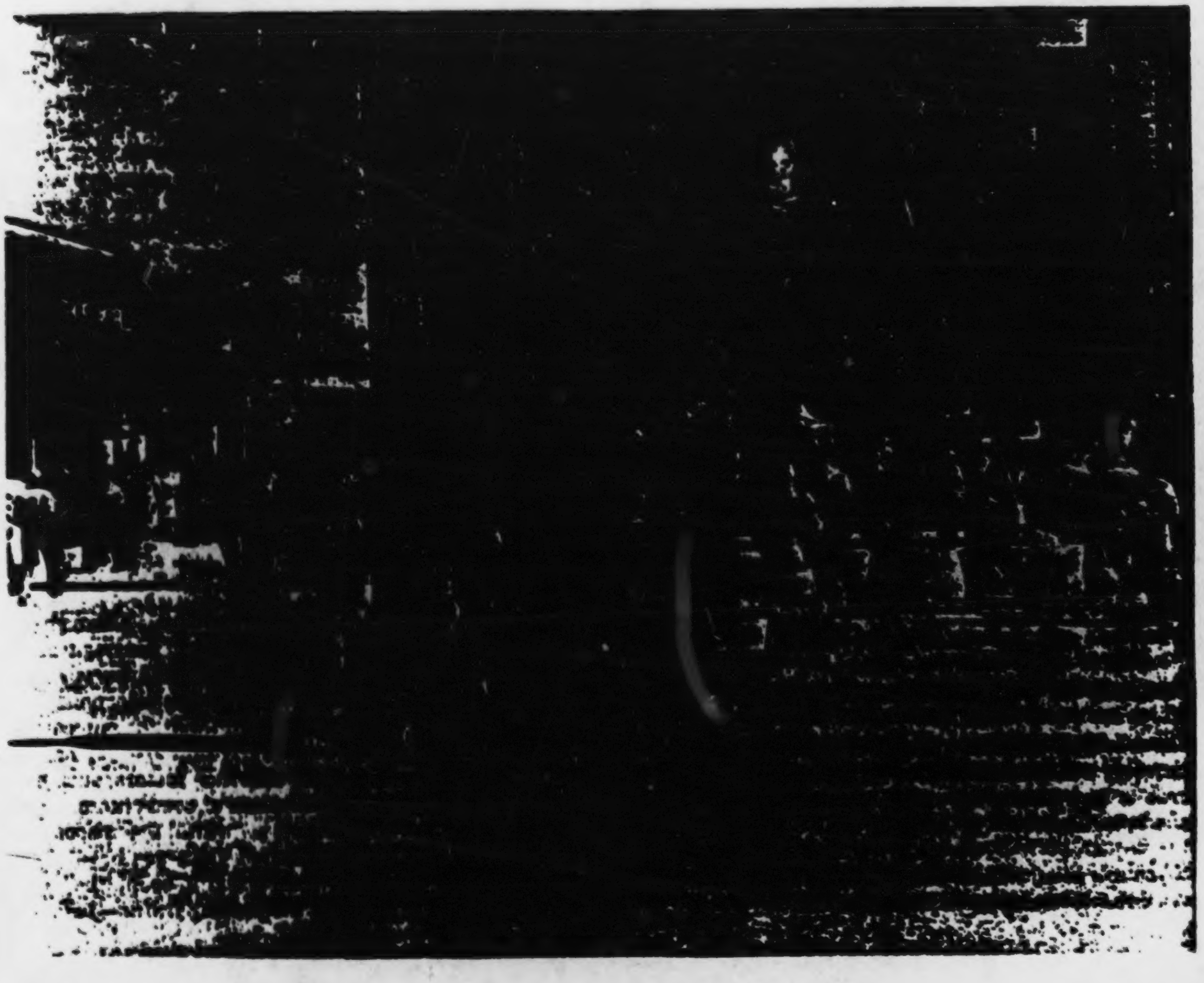

Summary

A retail consultant was asked, "What are the three factors most likely to ensure retailing success?" The reply was, "(1) Location, (2) location, and (3) location."

In other words, the impact of site selection on the success of your retail operation can't be overstressed! This Aid is aimed at just one aspect of how to determine the proper site, namely, research into the traffic in that area—both vehicular and pedestrian—that will bring business into your store. Methods of taking a traffic count are discussed along with how to evaluate and interpret the collected data.

Importance of a Good Location

Often an owner-manager, for whatever reason, is faced with renewing the lease or choosing a new or perhaps an additional site for the business. At this crucial time the owner should consider the value of a traffic count to be sure the new location can draw customers into the store.

In the central business district, land values and rents are often based on traffic counts. The site in the central business district that produces the highest traffic count with regard to the type of traffic desired by a particular store is considered its 100 percent location. However, a 100 percent location for one type of store may not be 100 percent for other types. For example, a site which rates 100 percent for a drugstore may be only 80 percent for a men's clothing shop or 60 percent for an appliance store.

In recent years, for most lines of trade, the average store size has increased. This, of course, means greater financial outlay for a good location plus greater investment in inventory, fixtures, and personnel. Did you know that firms which conduct location research generally eliminate about four out of every five locations studied?

Factors to be Considered

Three factors confront you as an owner-manager in choosing a location: selection of a city; choice of an area or type of location within a city; and identification of a specific site.

If you are going to *relocate in another city*, naturally you consider the following factors:

Size of the city's trading area.
Population and population trends in the trading area.
Total purchasing power and the distribution of the purchasing power.

Total retail trade potential for different lines of trade.
Number, size, and quality of competition.
Progressiveness of competition.

In choosing an *area or type of location* within a city you evaluate factors such as:

Customer attraction power of the particular store and the shopping district.
Quantitative and qualitative nature of competitive stores.
Availability of access routes to the stores.
Nature of zoning regulations.
Direction of the area expansion.
General appearance of the area.

Pinpointing the *specific site* is particularly important. In central and secondary business districts, small stores depend upon the traffic created by large stores. Large stores in turn depend on attracting customers from the existing flow of traffic. (However, where sales depend on nearby residents, selecting the trading area is more important than picking the specific site.) Obviously, you want to know about the following factors when choosing a specific site:

Adequacy and potential of traffic passing the site.
Ability of the site to intercept traffic en route from one place to another.
Complementary nature of the adjacent stores.
Adequacy of parking.
Vulnerability of the site to unfriendly competition.
Cost of the site.

How to Make a Traffic Count

First of all, be sure you need a traffic count. Although knowledge of the volume and character of passing traffic is always useful, in certain cases a traffic survey may not really make any difference. Other selection factors involved may be so significant that the outcome of a traffic study will have relatively little bearing on your decision. When the other selection factors, such as parking, operating costs, or location of competitors, become less important and data on traffic flow becomes dominant, then a count is indicated. Once you have determined that you really need a traffic count, the general objective is to count the passing traffic—both pedestrian and vehicular—that would constitute potential customers who would probably be attracted into your type of store. To evaluate the traffic available to competitors, you may desire to conduct traffic counts at their sites, too.

Data from a traffic count should not only show how many people pass by but generally indicate what kinds of people they are. Analysis of the characteristics of the passing traffic often reveals patterns and variations not readily apparent from casual observation.

For counting purposes, the passing traffic is divided into different classifications according to the characteristics of the customers who would patronize your type of business. Whereas a drugstore is interested in the total volume of passing traffic, a men's clothing store is obviously more concerned with the amount of male traffic, especially men between the ages of sixteen and sixty-five.

It is also important to classify passing traffic by its reasons for passing. A woman on the way to a beauty salon is probably a poor prospect for a paint store, but she may be a good prospect for a drugstore. The hours at which individuals go by are often an indication of their purpose. In the early morning hours people are generally on their way to work. In the late afternoon these same people are usually going home from work. When one chain organization estimates the number of potential women customers, it considers women passing a site between 10 a.m. and 5 p.m. to be the serious shoppers.

Evaluation of the financial bracket of passersby is also significant. Out of 100 women passing a prospective location for an exclusive dress shop, only ten may appear to have the income to patronize the shop. Of course, the greater your experience in a particular retail trade, the more accurately you can estimate the number of your potential customers. To determine what proportion of the passing traffic represents your potential shoppers, some of the pedestrians should be interviewed about the origin of their trip, their destination, and the stores in which they plan to shop. This sort of information can provide you with a better estimate of the number of potential customers.

In summary, the qualitative information gathered about the passing traffic should include counting the individuals who seem to possess the characteristics appropriate to the desired clientele, judging their reasons for using that route, and calculating their ability to buy.

Pedestrian Traffic Count

In making a pedestrian count you must decide: who is to be counted; where the count should take place; and when the count should be made. In considering who is to be counted, determine what types of people should be included. For example, the study might count all men presumed to be between sixteen and sixty-five. The directions should be completely clear as to the individuals to be counted so the counters will be consistent and the total figure will reflect the traffic flow.

As previously indicated, it is frequently desirable to divide the pedestrian traffic into classes. Quite often separate counts of men and women and certain age categories are wanted. A trial run will indicate if there are any difficulties in identifying those to be counted or in placing them into various groupings.

You next determine the specific place where the count is to be taken. You decide whether all the traffic near the site should be counted or only the traffic passing directly in front of the site. Remember that if all the pedestrians passing through an area are counted, there is the possibility of double counting. Since a person must both enter and leave an area, it is important that each person be counted only once—either when entering or when leaving. Therefore, it is essential that the counter consistently counts at the same location.

When the count should be taken is influenced by the season, month, week, day, and hour. For example, during the summer season there is generally an increased flow of traffic on the shady side of the street. During a holiday period such as the month before Christmas or the week before Easter, traffic is denser than it is regularly. The patronage of a store varies by day of the week, too. Store traffic usually increased during the latter part of a week. In some communities, on factory paydays and days when social security checks are received, certain locations experience heavier than normal traffic.

The day of the week and the time of day should represent a normal period for traffic flow. Pedestrian flow accelerates around noon as office workers go out for lunch. Generally more customers enter a downtown store between 10 a.m. and noon and between 1 p.m. and 3 p.m. than at any other time. Local custom or other factors, however, may cause a variation in these expected traffic patterns.

After you choose the day that has normal traffic flow, the day should be divided into half-hour and hourly intervals. Traffic should be counted and recorded for each half-hour period of a store's customary operating hours. If it is not feasible to count the traffic for each half-hour interval, the traffic flow can be sampled. Traffic in representative half-hour periods in the morning, noon, afternoon, and evening can be counted.

Estimate of Store Sales

Data from a pedestrian traffic survey can give you information on whether or not the site would generate a profitable volume for your store. A retailer with some past experience in the same merchandise line for which a store is planned can make a reasonable estimate of sales volume if the following information is available (in lieu of past personal experience, the trade association for your type of business may be of help):

Characteristics of individuals who are most likely to be store customers (from pedestrian interviews).
Number of such individuals passing the site during store hours (from traffic counts).
Proportion of passersby who will enter the store (from pedestrian interviews).
Proportion of those entering who will become purchasers (from pedestrian interviews).
Amount of the average transaction (from past experience, trade associations, and trade publications).

One retailer divides the people who pass a given site into three categories: those who enter a store; those who, after looking at the windows, may become customers; and those who pass without entering or looking. Owing to prior experience, this retailer is able to estimate from the percentage falling into each classification not only the number who will make purchases but also how much the average purchase will be. If, out of 1,000 passersby each day, five percent enter (fifty) and each spends an average of $8 ($400), a store at that site which operates 300 days a year will have an annual sales volume of $120,000.

Types of Consumer Goods

Another factor that affects site selection is the customers' view of the goods sold by a store. Consumers tend to group products into three major categories: convenience, shopping, and specialty.

Convenience usually means low unit price, purchased frequently, little selling effort, bought by habit, and sold in numerous outlets. Examples: candy bars, cigarettes, and milk.

Shopping usually means high unit price, purchased infrequently, more intensive selling effort usually required on the part of the store owner, price and features compared, and sold in selectively franchised outlets. Examples: men's suits, automobiles, and furniture.

Specialty usually means high unit price although price is not a purchase consideration, bought infrequently, requires a special effort on the part of the customer to make the purchase, no substitutes considered, and sold in exclusively franchised outlets. Examples: precious jewelry, expensive perfume, fine furs, and so on, of specific brands or name labels.

For store handling **convenience goods**, the quantity of pedestrian traffic is most important. The corner of an intersection which offers two distinct traffic streams and a large window display area is usually a better site than the middle of a block. Downtown convenience goods stores, such as low-priced, ready-to-wear stores and drugstores, have a limited ability to generate their own traffic. Therefore they must be situated in or near their 100 percent block. In merchandising convenience goods, it is easier to build the store within the traffic than the traffic within the store. Convenience goods are often purchased on impulse in easily accessible stores.

For stores handling **shopping goods**, the quality of the traffic is more important. While convenience goods are purchased by nearly everyone, certain kinds of shopping goods are purchased by only certain segments of shoppers. Moreover, it is sometimes the character of the retail establishment rather than its type of goods that governs the selection of a site. For example, a conventional men's wear store should be in a downtown location close to a traffic generator like a department store. On the other hand, a discount store handling menswear would prefer an accessible highway location. Stores that generate their own traffic through extensive promotional effort can locate away from the 100 percent location.

In many cases, buyers of shopping goods like to compare the items in several stores by traveling only a minimum distance. As a result stores offering complementary items tend to locate close to one another. An excellent site for a shopping goods store is next to a department store or between two large department stores where traffic flows between them. Another good site is one between a major parking area and a department store.

Specialty goods are often sought by consumers who are already "sold" on the product, brand, or both. Stores catering to this type of consumer may use isolated locations because they generate their own consumer traffic.

Stores carrying specialty goods that are complementary to certain other kinds of shopping goods may desire to locate close to the shopping goods stores. In general, the specialty goods retailer should locate in the type of neighborhood where the adjacent stores and other establishments are compatible with his or her operation.

Automobile Traffic Count

A growing number of retail firms depend on drive-in traffic for their sales. Both the quantity and quality of automotive traffic can be analyzed in the same way as pedestrian traffic. For the major streets in urban areas, either the city engineer, the planning commission, the State highway department, or an outdoor advertising company may be able to provide you with data on traffic flows. However, you may need to modify this information to suit your special needs. For example, you should supplement data relating to total count of vehicles passing the site with actual observation in order to evaluate such influences on traffic as commercial vehicles, changing of shifts at nearby factories, through highway traffic, and increased flow caused by special events or activities.

Types of Trips

Automobile traffic may be classified according to the reason for the trip. There are the *work trip*, the *shopping trip*, and the *pleasure trip*. Knowledge of the type of trip can assist you in making the correct site decision. Careful observation of the character of the traffic and even a few short interviews with drivers who are stopped for a traffic signal will reveal the nature of their trips.

Different types of retailers seek different locations although they are serving the same type of customer. For example, to serve a work trip customer, a drycleaner and a convenience foodstore usually desire to be located on different sides of the street. The drycleaner wants to locate on the going-to-work side of the street while the convenience foodstore wants to be on the going-home side.

A good location for a retailer seeking the customer on a planned shopping trip is along the right-hand side of the main street leading into a shopping district and adjacent to other streets carrying traffic into, out of, or across town. The beginning or end of a row of stores rather than across the street from the stores is preferable. Noting on which side the older, established stores are located provides a clue to the best side of the street. But check it out to be sure that the sales in these stores are rising rather than declining.

In smaller communities, where the major streets lead to and from the downtown area, the traffic pattern can be readily identified. In larger cities, where there are suburban shopping center locations, the traffic moves in many different directions. Because shopping centers tend to generate traffic, an analysis of the traffic flow to centers and between centers may show that a particular store location is outstanding.

The person on a *pleasure or recreational trip* is in the market for services such as those offered by motels, restaurants, and service stations. The probability of attracting this type of customer increases if the facility is located alongside a well-traveled highway and adjacent to a major entrance to the community.

Types of Consumer Goods

Understanding the motives of people passing your site in cars also depends on the same analysis of consumer behavior used in classifying pedestrians. There are the same three categories of goods or products to consider: *convenience*, *shopping* and *specialty*.

In general, the greater the automobile traffic, the greater the sales of *convenience goods* for catering to the drive-in traffic. For the drive-in store selling low-priced convenience goods, the volume of traffic passing the site is a most important factor in making a site decision. The consumer purchases these goods frequently and desires them to be readily available. Consumers are reminded when passing a convenience goods store that he or she needs a particular item.

If the consumer must make a special trip to purchase such convenience staple goods as food and drug items, they want the store to be close to home. One study of foodstore purchases in the central city area revealed that nearly 70 percent of the women patronized stores within one to five blocks of their homes. Another study of foodstores indicated that for suburban locations the majority of customers lived within three miles of the stores, while the maximum trading area was five miles. For rural locations, the majority of consumers lived within a ten minute drive to the store, with the maximum trading area within a twenty minute drive. A West Coast supermarket chain wants a minimum of 3,500

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homes within a mile-and-a-half radius of a shopping center before considering it for location. Research indicated that 80 percent of the customers of pizza carry-outs lived within a mile of the establishments.

On the other hand, a retailer dealing in shopping goods can have a much wider trading area. Without a heavily trafficked location—but with the help of adequate promotion—this more expensive type of store can generate its own traffic. In this case, a location with low traffic density but easy accessibility from a residential area is a satisfactory site. The consumer buys these goods infrequently and deliberately plans these purchases. Consumers are willing to travel some distance to make shopping comparisons.

If you offer shopping goods, however, you should not locate too far away from your potential customers. One study of a discount department store showed that 79.6 percent of the shoppers lived within five miles of the store and another 16.1 percent lived within a ten-mile radius. The magnitude of the trading area for a shopping goods store can be determined by a customer survey, automobile license checks, sales slips, charge account records, store deliveries, and the extent of local newspaper circulation.

The same principles of location which are applicable to the walk-in *specialty goods* stores are appropriate for the drive-in facility. Because this type of retailer generates its own traffic, you can locate away from the major traffic arteries.

Planned Shopping Centers

Many merchants seek a location in a planned shopping center. Retailers in cities where downtown business has suffered extensive loss to shopping centers should perhaps consider locating in or near a center. The downtown area that suffers the most from the development of a shopping center is in a city of about 100,000 population, which is just large enough to support a center. Shopping centers have been classified into three different types: the *neighborhood center*, the *community center*, and the *regional center*.

The *neighborhood center* generally serves 7,500 to 20,000 people living within a six to ten minute drive from the center. The major store—and the prime traffic generator—in the center is a supermarket. The other stores in the center, which may include a drugstore, hardware store, bakery, and beauty shop, offer convenience goods and services. The best location for a specialty food store in the center is adjacent to the supermarket. Other stores should be grouped by the compatibility of their merchandise.

The *community center* usually serves 20,000 to 100,000 people living within a ten to twenty minute drive. The dominant store is generally a junior department store or a large variety store. The majority of the stores carry shopping goods such as wearing apparel and appliances. However, a number of the stores also offer convenience items. The apparel and furnishings stores should locate as close to the dominant store as possible. A supermarket in this type of center is best located at one end. This is so that the adjacent parking is less apt to be used for long periods by the shoppers in the other stores. An end site or a location near a major entry is also desirable for a drugstore. Because drugstores tend to maintain longer hours than the other stores, they should be in an easily accessible location and not surrounded by a number of dark stores at night. A service establishment, such as a drycleaner or a barbershop, which depends on a rapid turnover of traffic in the center, should locate where there is always available parking.

The *regional center* serves 100,000 to 200,000 people within a twenty to forty minute drive from the center. One or more department stores are its major tenants. Frequently, the center is an enclosed mall with department stores at both ends. This type of center emphasized shopping goods. These numerous shopping goods stores usually locate between the two major stores in order to take advantage of the traffic flow. Stores handling convenience goods generally locate at the edge of the center or near an entry to the mall where there is easily accessible parking. Service and repair shops are also usually located in these areas of the regional center.

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Instructor's Final Checklist

SELECTING A LOCATION

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately listed four criteria for selecting a small business location	☐	☐	☐

Instructor's Guide Sheet ENT-017

SELECTING A FACILITY

OBJECTIVE

Given the physical needs of a small business, describe an appropriate facility in accordance with the Instructor's Final Checklist.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that every small business requires appropriate facilities to be operationally successful.

TEACHING STRATEGIES	RESOURCES
Have students read materials on selecting an appropriate small business facility.	Nelson, et al., *Owning and Operating a Small Business*, p. 25. Samson, et al., *Retail Merchandising*, pp. 101-107, 109-116.
Invite a commercial builder to discuss the planning and designing of small business facilities.	
Invite a franchise owner/operator to discuss how the parent company determines the appropriate type of facility for each business unit.	
Using a facility checksheet, lead students in evaluating local/area small business facilities.	Nelson, et al., *Owning and Operating a Small Business*, p. 25.

SUGGESTED EVALUATION TECHNIQUE

Provide students with a description of the physical needs of a small business (p. 114). Have them describe an appropriate facility in accordance with the Instructor's Final Checklist.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Invite a commercial builder to share construction plans that have been used for various types of small businesses (e.g., garden shop, retail store, fast-food restaurant, day care center).

SUGGESTED EVALUATION TECHNIQUE
ENT-017

PHYSICAL NEEDS OF A SMALL BUSINESS

Type of Small Business - Florist Shop

I. Business Area

- A. Adequate artificial lighting.
- B. Business office.
- C. Heating/cooling system.
- D. Natural light for live plants.
- E. Showroom including tables and shelving.
- F. Display rack for catalogs.

II. Outdoor Area

- A. Area for displaying garden plants in spring and cut evergreens for holiday season.
- B. Customer parking.
- C. Delivery truck parking.
- D. Handicapped persons entrance/exit ramp.
- E. Store sign.
- F. Trash disposal area.
- G. Unloading/loading area.

III. Storage Area

- A. Storage for cut flowers.
- B. Storage for live plants.
- C. Storage for supplies.
- D. Storage/holding area for items ready for delivery.

IV. Workroom Area

- A. Kitchenette.
- B. Lavatory.
- C. Work space with sink, tables, and shelving.

Instructor's Final Checklist

SELECTING A FACILITY

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

In describing an appropriate facility for a small business, the student considered the following areas:

	Fully Accomplished	Not Accomplished	Not Applicable
a. Business Area			
1. Lighting, natural and artificial	☐	☐	☐
2. Office space	☐	☐	☐
3. Heating/cooling system	☐	☐	☐
4. Display equipment	☐	☐	☐
b. Outdoor Area			
1. Display area	☐	☐	☐
2. Parking	☐	☐	☐
3. Ramp for handicapped	☐	☐	☐
4. Store sign	☐	☐	☐
5. Trash disposal	☐	☐	☐
6. Unloading/loading	☐	☐	☐
c. Storage Area			
1. Cut flowers	☐	☐	☐
2. Live plants	☐	☐	☐
3. Supplies	☐	☐	☐
4. Space for items ready for delivery	☐	☐	☐
d. Workroom Area			
1. Kitchenette	☐	☐	☐
2. Lavatory	☐	☐	☐
3. Work space	☐	☐	☐

Instructor's Guide Sheet ENT-018

DEVELOPING A HOME-BASED BUSINESS

OBJECTIVE

Given steps to follow, write a plan for a home-based business. Your performance will be rated in accordance with the criteria listed on the Instructor's Final Checklist.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that successful small business operations can be managed from within the home.

TEACHING STRATEGIES	RESOURCES
Have student read materials on developing a home-based business.	Information Sheet, "Home Businesses," pp. 118-122. Small Business Administration, "Feasibility Checklist for Starting a Small Business of Your Own."
Invite a home-based entrepreneur to discuss how the business was developed.	
Have students compile a list of potentially successful home-based businesses for the local/area.	
Lead students in developing a plan for a home-based business.	Information Sheet, "Steps for Developing a Home-Based Business," p. 123-124.

SUGGESTED EVALUATION TECHNIQUE

Provide students with the steps for developing a home-based business (ENT-018, Strategy 4). Have each student write a plan for a home-based business. Evaluate according to Instructor's Final Checklist.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Brainstorm to determine the skills learned in vocational classes that could be developed into home-based businesses.

U.S. Small Business Administration
Management Assistance Office
Support Services Branch

Small Business Bibliography
Number 2

SBA

Home Businesses

Revised March 1984

This is a revised and expanded edition of Small Business Bibliography No. 2, *Home Businesses*. It summarizes the management aspects of having a home-based business—with special consideration given to tax requirements. Space limits the number of references listed. The listing of publications and organizations in this Bibliography does not constitute SBA endorsement. Prices and availability of publications are subject to change without notice.

The author, Coralee Smith Kern, is the founder of the National Association for the Cottage Industry and publisher of the newsletter *Mind Your Own Business at Home*.

Ten years ago, working from home was primarily a way to moonlight in order to earn the extra money needed to keep bills from multiplying. While many people still moonlight, a more significant trend has been that more are staying at home full time to do their "moonlighting" on a permanent basis. This is causing an explosion of home-based businesses in this country. Today experts estimate that as many as 20 percent of new small business enterprises are operated out of the owner's home.

Jack Nilles, an economist at the University of California's Study of the Future program, estimates that there are currently over ten million home-based businesses throughout the United States, with the number growing possibly three-fold before 1990. John Naisbit, author of the bestselling book Megatrends, sees home-based entrepreneurs as multiplying rapidly and becoming an important part of the country's future economy.

For many years home-based business was considered to be for women only. But today many factors are leading both men and women to work from their homes. Some find it difficult or too costly to commute each day and believe they can be equally productive by working at home. The handicapped are discovering working possibilities that enable them to stay at home. Others want to participate to a greater extent in raising their children. Still others find it more economical to work at home than to rent or buy workspace elsewhere. And all want the satisfaction of owning their own business.

The Electronic Cottage

A new development in home-based business is the advent of electronic telecommuters—employees who keep in touch with their offices by computers, word processors, and telephones located in their homes. It is estimated that there will be more than five million home-based telecommuters before 1990.

Alvin Toffler, author of The Third Wave, has written that "this electronic cottage will be an important workplace in the coming years." He notes that the cost of moving information via electronic networks, including satellites, soon will be lower than a worker's daily commuting costs. Already life insurance companies and banks are starting pilot experiments by placing data processing and computer equipment in employees' homes.

Some Initial Considerations

Many of these new home-based entrepreneurs include professionals like attorneys, accountants, and consultants. They often have their own personal client lists when they begin their home-based business. Their contacts, experience, and background in their specialized fields give them the opportunity to make a running start in their new venture. They are the lucky ones.

Others are equally determined to open their own businesses. However, they have no client lists or contacts. For those we offer the following suggestions: (1) Write down a summary of your experiences, hobbies, and skills. Then ask yourself, What do I want to sell? (2) Next ask yourself, Who will need the product or service I want to sell? (3) Finally, study and research everything from public opinion polls to financial advice and counsel to determine whether the business can grow.

Many persons have succeeded in unusual businesses: one man, a former bookstore manager, now sells only "hard-to-find" books from his home; another began a computer information service and is now making a five-figure annual income; and a woman has a thriving catering service offering the same goodies she once served her house guests. And the list goes on.

Although working from home has been a highly successful move for some, it is usually an up hill climb. Even after you determine the type of home business you want to start, how do you reach the particular consumer market you want to sell to, and what accounting procedures, and legal and insurance requirements must you meet? These problems easily can frustrate the neophite small business owner.

Zoning, Registration, and Tax Requirements

What is often overlooked by new entrepreneurs is that a business operated from the home is subject to many of the laws and regulations that affect all businesses, large and small. Consulting an attorney is an essential first step for anyone considering a home-based business.

Most jurisdictions now have codes, a zoning board, and an appeals board which regulate home businesses. Areas often are zoned residential, commercial, or industrial. It is in your interest to become familiar with these regulations. If you are doing business in violation of these regulations, you could be issued a cease and desist order and fined. Since most zoning violations are reported by neighbors, it also is a good idea to maintain friendly relations with those living around you.

Certain kinds of goods cannot be produced in the home, though these restrictions vary somewhat state to state. Most states outlaw home production of fireworks, drugs, poisons, explosives, sanitary/medical products, and toys. Additionally, some states prohibit home businesses from making food, drink, and clothing. Check with your State Department of Labor to determine what restrictions affect you.

Many localities have registration requirements for new businesses; you will need to obtain a work certificate or license from the state. Your business name must be registered. There often is a registration fee. Usually a sales tax number must be obtained. A separate business telephone and bank account normally are required. A business must keep accurate and complete financial records and is liable for all taxes. If you have employees, you are responsible for withholding income and social security taxes. And you must pay workers' compensation and unemployment insurance, and comply with minimum wage and employee health laws.

There are various Federal and state forms you will need to fill out to start a small business. The Federal Government requires you to fill out several forms including:

Application for Employer Identification Number, Form SS-4. This registers you with the Internal Revenue Service as a business. If you have employees, you should ask for Circular E along with your ID number. Circular E explains Federal income and social secufity tax withholding requirements.

Employer's Annual Unemployment Tax Return, Form 940. This is only if you have employees. It's used to report and pay the Federal Unemployment Compensation Tax.

Employer's Quarterly Federal Tax Return, Form 941. Used to report, quarterly, the income tax and social security you withheld from employees and the social security matched by you, the employer.

Employee's Withholding Allowance Certificate, W-4. Every employee must complete the W-4 so the proper amount of income tax can be withheld from the employee's pay. If the employee claims more than 15 allowances or a complete withholding exemption while having a salary of more than $200 a week, a copy of the W-4 must go to the IRS.

Employer's Wage and Tax Statement, W-2. Used to report to the IRS the total taxes withheld and total compensation paid to each employee per year.

Reconciliation/Transmittal of Income and Tax Statements, W-3. Used to total all information from the W-2. Sent to the Social Security Administration.

The IRS puts on monthly workshops on understanding and using these forms. Call your local IRS office for further information.

States also have various tax form requirements including: an unemployment tax form, a certificate of registration application, a sales and use tax return, an employer's quarterly contribution and payroll report, an income tax withholding registration form, an income tax withholding form, and others. Some forms apply only to employers who have employees. Your local IRS office and State Office of Taxation can provide you with listings of forms you will need to start your business. The following table outlines Federal tax form requirements.

Federal Tax Forms Required to Start and Run A Sole Proprietorship

With No Employees

SS-4, Application for Employer Identification Number*

720, Quarterly Federal Excise Tax Return**

1040, Individual Income Tax Return

Various 1040 Schedules, usually:
- C, Profit or Loss from Business or Profession
- SE, Computation of Social Security Self-Employment Tax
- ES, Estimated Tax for Individuals (Paid quarterly by businesses earning above specified levels.)

4562, Depreciation and Amortization

With Employees

SS-4, with circular E: Application for Employer Identification Number, with Employee's Tax Guide

720, Quarterly Federal Excise Tax Return**

1040, Individual Income Tax Return

Various 1040 Schedules, usually:
- C, Profit or Loss
- SE, Computation of Social Security Self-Employment Tax
- ES, Estimated Tax for Individuals

4562, Depreciation and Amortization

940, Employer's Annual Federal Unemployment Tax Return

941, Employer's Quarterly Federal Tax Return

W-2, Employer's Wage and Tax Statement

W-3, Reconciliation/Transmittal of Income and Tax Statements

W-4, Employee's Withholding Allowance Certificate

* If you have no employees and are not subject to excise tax, you do not need to fill out this form. Use your social security number.

** Only if you sell products subject to Excise Tax, for example alcohol, tobacco, firearms, some types of clothing.

The Work Environment

An intangible aspect of running a home-based business is having the discipline to manage your time and energy. Without a supervisor requiring certain hours or deadlines, many people have difficulty getting work accomplished. An essential step for success is developing a business-like work environment.

Set aside a specific physical area as the office and use it for nothing else, a requirement not only of job psychology but of the Internal Revenue Service; always dress properly, especially if you are dealing with clients or customers; never let children answer the work phone; and keep regular hours. Home-based entrepreneurs must discipline themselves to "go to work" and put in the time necessary to operate their business. There is no security of a guaranteed paycheck. You are on your own!

John Naisbit has written, "I don't see every one starting a cottage industry because I believe too many people need the companionship of co-workers and the control that management has over their work habits, but I do believe there will be many persons beginning new businesses at home because they really want the freedom of choice it gives them . . . ." But for those who experience isolation because of a now non-existent ca pool or from sitting at a typewriter or computer terminal all day with no adult to talk with, there is a way out. The antidote for isolation is networking.

Networking has become one of the great side benefits of the work-at-home movement. It is an opportunity to meet others who work from their homes, some in the same professional capacity, and often with the same problems. You can help each other. By meeting on a regular basis for a forum on ideas and solutions, not only is networking a cure for isolation, but a catalyst for information exchange and morale boosting. This often makes the difference between success and giving up.

Because home-based entrepreneurs often feel isolated, there are now several nonprofit home business associations which recently have become popular. By becoming a member, home-based business owners can receive newsletters on a regular basis, become a part of discount programs . . . and most of all, derive satisfaction from knowing they are not alone! The *Bibliography* lists many of these associations and newsletters.

Looking for Help

Many resources are available to those embarking on their own new enterprise. Your local library has publications and information on everything you have always wanted to know about home business. Chambers of Commerce often can have contacts with local businesses who might use your services or can point out unfilled needs in your community. They also can supply demographic data on the local population to help you determine the potential market for your business.

State Departments of Commerce usually can supply a prospective small business owner with an information kit, as well as advice on particular enteprises. The Internal Revenue Service also has a kit to inform you about taxes and financial regulations.

Another source of advice and training is the Junior/Community College System. They conduct both credit and non-credit courses in such subjects as accounting, bookkeeping, financial planning, advertising and promotion for small business. Many also operate displaced homemaker programs for the former housewife who suddenly is called upon to support herself.

Another useful contact is the U.S. Department of Agriculture Home Extention Agent stationed in every county in the United States. These agents often can furnish practical advice on many aspects of business operation, especially in areas of traditional crafts and specialty food marketing.

An additional fruitful source of business information is newsletters, both general and specialized. They can keep you up-to-date on business developments, government reports, and articles by attorneys, accountants, and other professionals. The local librarian often subscribes to these newsletters, and you might want to review a sample copy of one to determine if it is of any value to you.

The Small Business Administration (SBA) provides training, counseling and financial assistance to the small business sector. SBA also has specialized programs for home-based businesswomen. Each local SBA office has a Women's Business Ownership Representative who can provide complete information on these specialized programs. There are additional specialized programs for veterans and minorities. Check with your local office for further information; it is listed under US Government in the phone book. For a complete listing of SBA publications write to: SBA, P.O. Box 15434, Ft. Worth, TX 76119. Ask for the *115A Free Publications* listing or the *115B For Sale Publications* listing. Both listings are free.

INFORMATION SHEET
ENT-018

STEPS FOR DEVELOPING A HOME-BASED BUSINESS

STEP ONE

If no client list or contact persons are available, ask yourself these questions:

1. What do I want to sell?
2. Who will need the product/service I want to sell?
3. What is the growth potential of this home-based business?

If your answers to the above questions are encouraging and you decide to continue the development of a home-based business, move on to . . .

STEP TWO

Consult a lawyer to advise you in the legal aspects of beginning and operating a home-based business. Ask for explanations of the following:

1. Zoning codes regulating home-based business.
2. Product/service restrictions for home-based operations.
3. Registration requirements which must be met.
4. Requirements for a business phone and separate bank account.
5. Legal forms and procedures if the business has employees other than yourself.
6. Required and/or needed financial records.
7. Required federal and state forms such as the following:
    - A. Application for Employee Identification Number,
    - B. Employer's Annual Unemployment Tax Return,
    - C. Employer's Quarterly Federal Tax Return,
    - D. Employee's Withholding Allowance Certificate,
    - E. Employer's Wage and Tax Statement,
    - F. Reconciliation/Transmittal of Income and Tax Statements,
    - G. Individual state requirements.

If you are still interested in a home-based business, move on to . . .

STEP THREE

Develop a business-like environment by designating specific areas of your home from which the work will be done. This is not only to help you in the management of the work, but also is a requirement of the Internal Revenue Service.

STEP FOUR

You are on your own at this point. Persons owning and operating a home-based business must continue much in the same ways as other small business owners/operators. Areas which will demand systematic attention are:

1. ordering supplies,
2. taking and filling orders,
3. advertising,
4. recordkeeping,
5. customer relations, and
6. business growth and possible expansion.

Adapted from Small Business Administration, "Home Businesses," Small Business Bibliography, Number 2, Revised March 1984.

Instructor's Final Checklist

DEVELOPING A HOME-BASED BUSINESS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

When developing a plan for a home-based business, the student:

	Fully Accomplished	Not Accomplished	Not Applicable
a. Decided what to sell and to whom to sell it	☐	☐	☐
b. Developed questions to ask a lawyer regarding the legal aspects of a home-based business	☐	☐	☐
c. Designated specific areas of the home from which work would be done	☐	☐	☐
d. Listed areas which would demand systematic attention	☐	☐	☐

Instructor's Guide Sheet ENT-019

DECIDING TO LEASE OR BUY AN EXISTING FACILITY OR TO LEASE OR BUY A CUSTOM DESIGNED FACILITY

OBJECTIVES

(1) Without the use of resources, accurately list two advantages and two disadvantages for leasing an existing facility and for buying an existing facility.

(2) Without the use of resources, accurately list two advantages and two disadvantages for leasing or buying a custom designed facility.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of making the appropriate choice when deciding on a small business facility.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students read material on leasing and buying an existing facility. .	Samson, et al., Retail Merchandising, pp. 94-100.
Invite a realtor to discuss the differences in leasing and buying an existing facility.	
Lead students in developing a list of advantages/disadvantages of leasing and buying an existing facility.	Information Sheet, "Leasing and Buying an Existing Business Facility," p. 129.
Objective 2	
Invite a builder to discuss the reasons some entrepreneurs choose to custom design a business facility.	
Lead students in developing a list of advantages/disadvantages of custom designing a business facility.	Information Sheet, "Custom Designing a Business Facility," p. 130.

SUGGESTED EVALUATION TECHNIQUES

(1) Have students accurately list two advantages and two disadvantages for leasing an existing facility and for buying an existing facility.

(2) Have students accurately list two advantages and two disadvantages of leasing or buying a custom designed facility.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Select three groups. Have one of the groups interview an entrepreneur who leases an existing facility; have the second group interview an entrepreneur who purchased an existing facility; have the third group interview an entrepreneur who has custom designed a facility and is leasing or buying it. Have them report to the chapter the advantages/disadvantages of each type of acquisition.

INFORMATION SHEET
ENT-019

LEASING AND BUYING AN EXISTING BUSINESS FACILITY

I. LEASING AN EXISTING FACILITY

A. Advantages

1. The business can be moved on short notice depending on the terms of the lease.
2. The lessee has the right of possession and use of the property so long as the rights of the lessor are upheld.
3. The written agreement typically defines the rights of both the lessee and the lessor.
4. Immediate occupancy is oftentimes possible.
5. The lessor may have the responsibility of facility repair and/or maintenance.

B. Disadvantages

1. When the lease expires, the owner has the right to regain possession of the property.
2. Any improvements and/or additions to the facility become the property of the owner.
3. The lessee will never have clear ownership rights to the facility.

II. BUYING AN EXISTING FACILITY

A. Advantages

1. The money invested in payments increases the equity of the property.
2. Ultimately the facility will be owned freely and clearly.
3. Any improvements and/or additions can be made by the purchaser.
4. Immediate occupancy is oftentimes possible.

B. Disadvantages

1. The cost of renovation and/or repair of the facility may be more than anticipated.
2. Taxes on owned property are imperative.
3. Mortgage arrangements may be difficult.
4. Selling the facility may be a problem.
5. Unless critically assessed, the owner may find the facility lacking as to long-term wants and needs.

INFORMATION SHEET
ENT-019

CUSTOM DESIGNING A BUSINESS FACILITY

I. Advantages of Custom Designing a Business Facility

   A. The facility can be built to meet the wants and needs of the entrepreneur.
   B. Repair and maintenance costs will be less than for an older facility.
   C. A new building may facilitate more rapid small business growth.
   D. Money may be saved if the owner does some of the actual construction or finishing work or if a prefabricated structure is used.

II. Disadvantages of Custom Designing a Business Facility

   A. The projected cost of the facility may be less than the actual cost.
   B. Constant decisions must be made by the entrepreneur; wants and needs must be clearly known from the beginning.
   C. Selling may be difficult if the facility was customized by the entrepreneur.
   D. A delay in the construction schedule may prevent an anticipated occupancy date.

Instructor's Final Checklist

DECIDING TO LEASE OR BUY AN EXISTING FACILITY OR TO LEASE OR BUY A CUSTOM DESIGNED FACILITY

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

Note to Instructor: For a one-semester course, use the checklist statement(s) for Objective 1. For a one-year course, use the statement(s) for both objectives.

	Fully Accomplished	Not Accomplished	Not Applicable
Objective 1			
The student accurately listed two advantages and two disadvantages for leasing an existing facility	☐	☐	☐
The student accurately listed two advantages and two disadvantages for buying an existing facility	☐	☐	☐
Objective 2			
The student accurately listed two advantages and two disadvantages for leasing or buying a custom designed facility	☐	☐	☐

Instructor's Guide Sheet ENT-020

PREPARING FINANCIAL STATEMENTS

OBJECTIVES

(1) Without the use of resources, match 11 or more of the following terms to their correct definitions: income statement, balance sheet, gross profit, net profit, sales, cost of sales, expenses, assets, liabilities, current assets, fixed assets, intangible assets, current liabilities, and fixed liabilities.

(2) Given data, accurately complete an income statement and a balance sheet.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of financial statements in evaluating the growth of a small business.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students read materials on income statements and balance sheets.	Hutt, Creating a New Enterprise, pp. 105-108. Lasselle, Recordkeeping: The Total Concept, pp. 384-386. Nelson, et al., Owning and Operating a Small Business, pp. 39-73. Samson, et al., Retail Merchandising, pp. 489-492. Siropolis, Small Business Management, pp. 373-377.
Have students do a worksheet on terms related to income statements and balance sheets. Discuss and give illustrations of the terms.	Worksheet, "Terms on Financial Statements," p. 135.

Objective 2

Invite a business's financial secretary to present and explain income statements and balance sheets.

Provide students with examples of financial statements for discussion and review. Ask questions such as: What are the differences in income statements and balance sheets? Why are financial statements imperative to a business operation?

Nelson, et al., Owning and Operating a Small Business, pp. 71, 73.

SUGGESTED EVALUATION TECHNIQUES

(1) Have students match terms associated with an income statement and a balance sheet with their correct definitions (p. 136).

(2) Provide students with data to complete an income statement and a balance sheet (Nelson, et al., Owning and Operating a Small Business, pp. 71, 73 or Samson, et al., Retail Merchandising, p. 496, Problems 3, 4).

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Ask the chapter treasurer to present an income statement and a balance sheet showing the chapter's financial situation.

WORKSHEET
ENT-020

TERMS ON FINANCIAL STATEMENTS

DIRECTIONS: Using resources provided by your instructor, define each of the following terms.

1. income statement -
2. balance sheet -
3. gross profit -
4. net profit -
5. sales -
6. cost of sales -
7. expenses -
8. assets -
9. liabilities -
10. current assets -
11. fixed assets -
12. intangible assets -
13. current liabilities -
14. fixed liabilities -

SUGGESTED EVALUATION TECHNIQUE
ENT-020

TERMS OF FINANCIAL STATEMENTS

DIRECTIONS: Read each term and definition. From the definition on the right select the correct one for each term. Place the definition's corresponding letter in the blank to the left of each term.

____ 1. income statement
____ 2. balance sheet
____ 3. gross profit
____ 4. net profit
____ 5. sales
____ 6. cost of sales
____ 7. expenses
____ 8. assets
____ 9. liabilities
____10. current assets
____11. fixed assets
____12. intangible assets
____13. current liabilities
____14. fixed liabilities

A. assets which the enterprise would not expect to hold for more than one year.

B. income remaining after paying all expenses, including taxes.

C. assets which have value and are useful to the enterprise, but do not exist in a physical sense.

D. shows how a business has performed over a certain period of time.

E. costs of running an enterprise, other than those included in the cost of sales.

F. debts that are due to be paid in more than one year.

G. used to keep track of what an enterprise owns, what it owes, and what the owner has invested.

H. income that flows into the business from sales activity.

I. debts that are due to be paid in one year or less.

J. price of the products/services paid for in a given time period.

K. items which the business expects to own for more than one year.

L. debts of the enterprise.

M. determined by subtracting cost of sales from sales.

N. items or possessions that are used in the business and which have monetary value.

Terms and definitions from Hutt, Creating a New Enterprise, pp. 105-108.

SUGGESTED EVALUATION TECHNIQUE
ENT-020
ANSWERS

1. D
2. G
3. M
4. B
5. H
6. J
7. E
8. N
9. L
10. A
11. K
12. C
13. I
14. F

Instructor's Final Checklist

PREPARING FINANCIAL STATEMENTS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

Note to Instructor: For a one-semester course, use the checklist statement(s) for Objective 1. For a one-year course, use the statements for both objectives.

	Fully Accomplished	Not Accomplished	Not Applicable
Objective 1			
The student matched 11 or more financial terms to their correct definitions	☐	☐	☐
Objective 2			
The student accurately completed an income statement	☐	☐	☐
The student accurately completed a balance sheet	☐	☐	☐

DETERMINING CAPITAL NEEDS

OBJECTIVE

Without the use of resources, accurately define capital, equity capital, and debt capital and accurately list a minimum of two differences between equity capital and debt capital.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that beginning any business requires financial planning and accessible resources.

TEACHING STRATEGIES	RESOURCES
Have students read materials on determining capital needs.	Brown and Warner, Economics of Our Free Enterprise System, pp. 228-278.
	Everard and Burrow, Business Principles and Management, pp. 262-278.
	Hanson, Entrepreneurship: A Career Alternative, pp. 15-17.
	Hutt, Creating a New Enterprise, pp. 102-103.
	Osgood, Business Planning Guide, pp. 27-28.
	Siropolis, Small Business Management, pp. 246-253.
	Small Business Administration, "A Venture Capital Primer for Small Business."
Have students define equity capital and debt capital. Have them list differences between the two.	Hutt, Creating a New Enterprise, pp. 108-109.
	Nelson, et al., Owning and Operating a Small Business, pp. 29-31.

	Osgood, Business Planning Guide, pp. 82-83. Petersen and Lewis, Free Enterprise Today, pp. 236-241. Siropolis, Small Business Management, pp. 253-266.
Lead students in a discussion of the importance of a financial plan for entrepreneurs. Have them complete a worksheet on estimating financial needs.	Hutt, Creating a New Enterprise, pp. 115-117.
Provide students with a small business case study, data, and a blank cash budget worksheet. Have them determine the capital needed to begin the operation.	Siropolis, Small Business Management, pp. 277-278.
Invite a bank loan officer to discuss what is required of a person needing capital to begin an entrepreneurial venture.	
Provide students with bank interview situations where people are requesting startup money for small businesses. Have them choose the persons to whom they would grant loans and make a list of reasons for approving/disapproving each loan.	Nelson, et al., Owning and Operating a Small Business, pp. 34-35.

SUGGESTED EVALUATION TECHNIQUE

Have students accurately write the definitions of capital, equity capital, and debt capital. Have them accurately list a minimum of two differences between equity capital and debt capital.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

After selecting a small business that would benefit the chapter/school (ENT-015, Student Organization Activity), work with advisor/principal on the capital needed to begin the business.

Instructor's Final Checklist

DETERMINING CAPITAL NEEDS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately defined capital, equity capital, and debt capital	☐	☐	☐
The student accurately listed a minimum of two differences between equity capital and debt capital	☐	☐	☐

IDENTIFYING SOURCES OF FINANCING

OBJECTIVE

Without the use of resources, list with 100% accuracy five sources of financing for entrepreneurs.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that financial assistance for entrepreneurs can be obtained from a variety of sources.

TEACHING STRATEGIES	RESOURCES
Have students read materials on sources of financing.	Everard and Burrow, Business Principles and Management, pp. 283-287. Hanson, Entrepreneurship: A Career Alternative, p. 17. Hutt, Creating a New Enterprise, p. 109. Kentucky Competency Based Vocational Education Module ES-31, "Going Into Business for Yourself," Instruction Sheet 3. Nelson, et al., Owning and Operating a Small Business, p. 30. Siropolis, Small Business Management, pp. 256-266.
Have small groups of students compile lists of sources of financing for local/area entrepreneurs. Lead the students in compiling a master list of financial sources.	Samson, et al., Retail Merchandising, pp. 77-81.

SUGGESTED EVALUATION TECHNIQUE

Have students list with 100% accuracy five sources of financing for entrepreneurs.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Invite an investment banker/consultant to present the sources of local/area financing available for small business.

Instructor's Final Checklist

IDENTIFYING SOURCES OF FINANCING

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student listed with 100% accuracy five sources of financing for entrepreneurs	[ ]	[ ]	[ ]

Instructor's Guide Sheet ENT-023

COMPARING FINANCING

OBJECTIVE

Without the use of resources, accurately list three questions to ask as a basis for comparing sources of financing.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that the selection of a financing source should be done after all sources have been considered.

TEACHING STRATEGIES	RESOURCES
Have students read materials on comparing financing.	Everard and Burrow, Business Principles and Management, pp. 283-287. Siropolis, Small Business Management, pp. 261-266. Small Business Administration, "The ABC's of Borrowing."
Invite a banker to describe the sources of financing identified in ENT-022, Strategy 2. Have him/her state questions an entrepreneur should ask when considering a loan, e.g., What is the current rate of interest on a small business loan? How do the conditions of a short-term and long-term loan compare? How much collateral is required? Are there closing costs? What is the foreclosure policy?	

SUGGESTED EVALUATION TECHNIQUE

Have students accurately list three questions to ask as a basis for comparing sources of financing.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Develop a bulletin board display on local/area sources of financing.

Instructor's Final Checklist

COMPARING FINANCING

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately listed three questions to ask as a basis for comparing sources of financing for a small business	☐	☐	☐

SELECTING A FINANCIAL INSTITUTION

OBJECTIVE

Without the use of resources, accurately list three local/area financial institutions and a minimum of two services each provides to entrepreneurs.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that various types of financial institutions do not necessarily offer the same customer services.

TEACHING STRATEGIES	RESOURCES
Have students read materials on the types of financial institutions and the services offered by each.	Everard and Burrow, *Business Principles and Management*, pp. 283-287. Osgood, *Business Planning Guide*, pp. 83-85. Petersen, *Economics of Work*, pp. 143-145. Petersen and Lewis, *Free Enterprise Today*, pp. 189-190. Siropolis, *Small Business Management*, pp. 262-264. Small Business Administration, "Sound Cash Management and Borrowing."
Lead students in listing all the financial institutions in the locality/area. Use the telephone directory yellow pages, newspapers, and radio and television advertisements to determine the services each provides to entrepreneurs.	
Give students the small business description from ENT-023, "Comparing Financing," Objective 2, Strategy 2. Have them select the financial institution that would be most beneficial to each business.	

SUGGESTED EVALUATION TECHNIQUE

Have students accurately list three local/area financial institutions and a minimum of two services each provides to entrepreneurs.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Sponsor a Financial Institution Day. Invite representatives from local/area institutions to set up displays on their services.

Instructor's Final Checklist

SELECTING A FINANCIAL INSTITUTION

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately listed three local/area financial institutions	☐	☐	☐
The student accurately listed a minimum of two services each of three local/area financial institutions provides to entrepreneurs	☐	☐	☐

ESTABLISHING A RECORDKEEPING SYSTEM

OBJECTIVE

Without the use of resources, accurately list five records that should be maintained daily by small business.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that recordkeeping is important for small businesses.

TEACHING STRATEGIES	RESOURCES
Have students read materials on keeping records.	Everard and Burrow, Business Principles and Management, pp. 221-225. Lasselle, Recordkeeping: The Total Concept, pp. 4-5. McFarlane, Getting Down To Business: What It's All About? pp. 106-107. Nelson, et al., Owning and Operating a Small Business, pp. 51-52, 54. Small Business Administration, "Keeping Records in Small Business."
Invite a bookkeeper or business teacher to explain how recordkeeping methods meet the needs of small business.	
Have each student contact one small business bookkeeper to determine the recordkeeping system used and the advantages of the system.	
Discuss with students the records a small business should keep on a daily basis.	Nelson, et al., Owning and Operating a Small Business, pp. 52, 54.

SUGGESTED EVALUATION TECHNIQUE

Have students accurately list five records that should be maintained daily by small business.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Ask a business teacher or the school bookkeeper to display and explain a recordkeeping system to the chapter.

Instructor's Final Checklist

ESTABLISHING A RECORDKEEPING SYSTEM

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately listed five records that should be maintained daily by small business	☐	☐	☐

Instructor's Guide Sheet ENT-026

COMPLETING IN-HOUSE REPORT FORMS

OBJECTIVE

Given data and blank forms, accurately complete a business check with stub, a daily receipts summary, an accounts receivable register, a petty cash slip, a bank reconciliation statement, and a payroll ledger.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of accurate and complete in-house recordkeeping in maintaining financial stability.

TEACHING STRATEGIES	RESOURCES
Invite a business teacher or small business recordkeeper to demonstrate the following procedures: completing a business check with stub, filling out a daily receipts summary, filling out an accounts receivable register, filling out a petty cash slip, completing a bank reconciliation statement, and logging a payroll ledger.	Kentucky Competency Based Vocational Education Module BK-47B, "Keeping Financial Records for a Business." McFarlane, Getting Down to Business: What's It All About? pp. 107-122.
Lead students in an activity in which they practice the procedures that were demonstrated in Strategy 1.	

SUGGESTED EVALUATION TECHNIQUE

Provide students with data and blank forms (Nelson, et al., Owning and Operating a Small Business, pp. 58-64; answers, pp. 65-67) to complete a business check with stub, a daily receipts summary, an accounts receivable register, a petty cash slip, a bank reconciliation statement, and a payroll ledger.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Develop a bulletin board display with illustrations of in-house report forms.

Instructor's Final Checklist

COMPLETING IN-HOUSE REPORT FORMS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

The student accurately completed the following in-house report forms:	Fully Accomplished	Not Accomplished	Not Applicable
a. Business check with stub	☐	☐	☐
b. Daily receipts summary	☐	☐	☐
c. Accounts receivable register	☐	☐	☐
d. Petty cash slip	☐	☐	☐
e. Bank reconciliation statement	☐	☐	☐
f. Payroll ledger	☐	☐	☐

COMPUTING BREAKEVEN POINT

OBJECTIVE

Given data, use a breakeven formula and accurately determine the breakeven point for a business.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that being able to compute a small business's breakeven point can aid in making rational decisions concerning the business.

TEACHING STRATEGIES	RESOURCES
Have students read materials on computing a breakeven point.	Osgood, Business Planning Guide, pp. 47-49. Siropolis, Small Business Management, pp. 360-362. Small Business Administration, "Simple Breakeven Analysis for Small Stores."
Demonstrate with one set of data the results one would get using a profitgraph and a breakeven point formula. Have students compare the results. Ask them why a profitgraph could be a versatile tool in planning and control. Have them give examples of how a profitgraph may be used.	Information Sheets, "Profitgraph Example," p. 161, and "Profitgraph Expressed Using Breakeven Formula," p. 162.
Lead a discussion on the importance of knowing a small business's breakeven point when considering expansion or a change in direction.	Siropolis, Small Business Management, pp. 360-362.

SUGGESTED EVALUATION TECHNIQUE

Provide students with data (p. 163) and have them use a breakeven formula to accurately calculate the breakeven point for a business.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Have the chapter treasurer compute the breakeven point for the chapter. Show this on a profitgraph.

PROFITGRAPH EXAMPLE

An entrepreneur has been profitably operating a restaurant in a shopping center for six years. Her success has encouraged her to think seriously about leasing space in another shopping center for a second restaurant. Before she can make this decision, she needs to know how many customers she must average daily before she begins to make a profit. To answer that question, the entrepreneur and her accountant have estimated that:

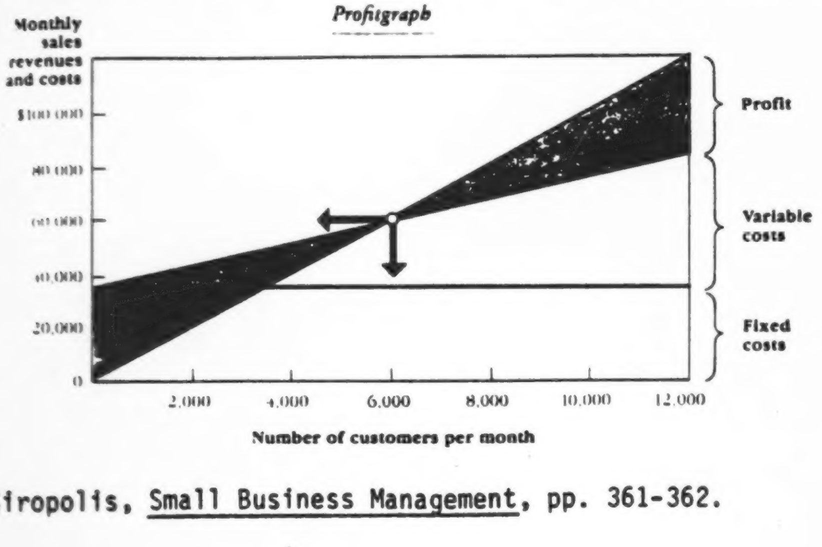
- Variable costs will be $0.40 on each $1.00 of sales.
- Fixed costs will be $36,000 a month.
- The average customer will spend $10.00 for a meal.

Using this information, the entrepreneur can construct a profitgraph like the one below. As shown, the new restaurant would begin to make a profit when its monthly revenues top $60,000--or at least 6,000 customers a month. Note that in constructing the profitgraph, the entrepreneur:

- Drew a straight line parallel to the horizontal axis to show that fixed costs ($36,000 a month) would be the same regardless of the number of customers patronizing the new restaurant.
- Drew a second straight line beginning at $36,000 on the vertical axis and increasing at the rate of $0.40 per $1.00 of sales or $4.00 per average customer to show total costs.
- Drew a third straight line beginning at zero and increasing at the rate of $10.00 per average customer to show total revenues.

The point at which the revenue and total-cost lines intersect is the point at which revenues match total costs. In other words, it is the point at which the entrepreneur would make neither a profit nor a loss, but would break even.

Profitgraph



Taken from Siropolis, Small Business Management, pp. 361-362.

INFORMATION SHEET
ENT-027
BREAKEVEN FORMULA

PROFITGRAPH EXPRESSED USING BREAKEVEN FORMULA

A basic breakeven formula is:

$$s = fc + vc$$

where s = breakeven level of sales in dollars
fc = fixed costs in dollars (expenses)
vc = variable costs in dollars (percent of cost of goods sold)

Using the restaurant figures

s = total sales needed to breakeven
fc = \$36,000/month
vc = \$.40/\$1.00 spent (40%)

$$s = fc = vc$$
$$s = \$36{,}000 = .40s$$
$$s - .4\,s = 36{,}000$$
$$.6\,s = 36{,}000$$
$$s = \frac{36{,}000}{.6}$$

s = \$60,000 needed/month to breakeven

The average customer spends \$10.00

$\frac{\$60{,}000}{\$10}$ = 6000 customers/month to gross \$60,000

Taken from Siropolis, Small Business Management, pp. 361-362.

SUGGESTED EVALUATION TECHNIQUE
ENT-027

DATA FOR BREAKEVEN FORMULA

Total Sales Needed to Breakeven = ?
Fixed Costs = $21,000/month
Variable Costs = $.70/1.00 spent (70%)
Average Customer Spends $7.00

1. Determine the breakeven point using a Breakeven Formula.

2. What is the needed customer count to breakeven?

ANSWERS:

1.

$$\begin{aligned} S &= fc + vc \\ S &= \$21{,}000 + .70S \\ S - .7S &= \$21{,}000 \\ .3S &= \$21{,}000 \\ S &= \frac{\$21{,}000}{.3} \\ S &= \$70{,}000\text{/month to breakeven} \end{aligned}$$

2.

$$\frac{\$70{,}000}{\$7.00} = 10{,}000 \text{ customers/month to gross } \$70{,}000$$

Instructor's Final Checklist

COMPUTING BREAKEVEN POINT

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately calculated the breakeven point for a business	☐	☐	☐

CONTROLLING CASH FLOW

OBJECTIVE

Without the use of resources, accurately list three reasons for tabulating cash flow on a monthly basis.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that understanding the concept of cash flow will enhance the development of short- and long-term budgetary goals.

TEACHING STRATEGIES	RESOURCES
Have students read materials on controlling cash flow.	Everard and Burrow, Business Principles and Management, pp. 253-254.
	Hutt, Creating a New Enterprise, pp. 104-106.
	Information Sheet, "Cash Flow in a Small Plant," pp. 167-171.
	Osgood, Business Planning Guide, pp. 63-64.
	Petersen and Lewis, Free Enterprise Today, pp. 232-234.
	Siropolis, Small Business Management, pp. 332-334.
Using a cash flow chart, discuss with students the need for controlling cash flow.	Osgood, Business Planning Guide, pp. 63-64, 66-67.
Provide students with a formula for computing a monthly cash flow.	Hutt, Creating a New Enterprise, pp. 104-105.

SUGGESTED EVALUATION TECHNIQUE

Have students accurately list three reasons for tabulating cash flow on a monthly basis.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Ask chapter members to keep a record of their personal cash flow for three months.

U.S. Small Business Administration
Management Assistance
Support Services

Management Aids
Number 1.006

SBA

Cash Flow In A Small Plant

By Danny S. Litt
Executive Vice President Finance
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Summary

The prime objective for any business is to survive. That means, a firm must have enough cash to meet its obligations. This Aid shows the owner-manager how to plan for the movement of cash through the business and thus plan for future requirements.

Introduction

"Business is booming. This month alone, the sales volume has risen over 50 percent."

Many proud owner-managers equate growth in sales volume with the success of their enterprise. But, many of these so-called "successful" businesses are becoming insolvent because they do not have enough cash to meet the needs of an increasing sales volume. For, without cash, how can the business pay its bills, meet its payroll requirements, and purchase merchandise for the increased sales demand?

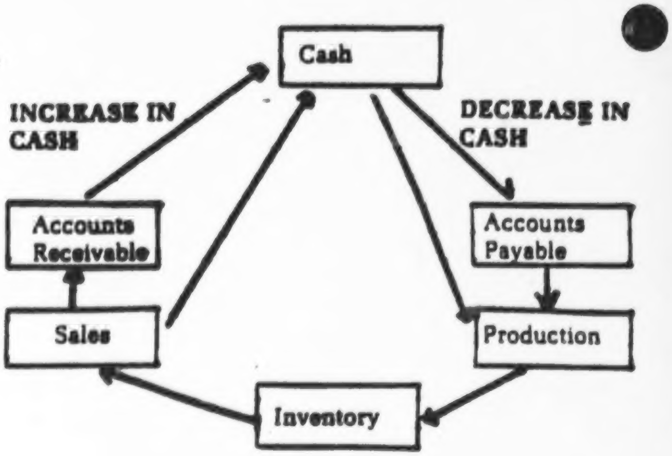
A business must have enough cash to meet its legal obligations and avoid becoming insolvent. This is a primary business objective that may override other objectives, such as sales volume. What good is additional sales volume if you're out of business?

Sufficient cash is one of the keys to maintaining a successful business. Thus, you must understand how cash moves or flows through the business and how planning can remove some of the uncertainties about future requirements.

Cash Flow

Cash Cycle. In any business there is a continual cycle of events which may increase or decrease the cash balance. The following diagram is used to illustrate this flow of cash.

Cash is decreased in the acquisition of materials and services to produce the finished goods. It is reduced in paying off the amounts owed to suppliers: that is, accounts payable. Then, inventory is sold and these sales generate cash and accounts receivable; that is, money owed from customers. When customers pay, accounts receivable is reduced and the cash account increases. However, the cash flows are not necessarily related to the sales in that period because customers may pay in the next period.



Net Working Capital. Current assets are those resources of cash and those assets which can be converted to cash within one year or a normal business cycle. These include cash, marketable securities, accounts receivable, inventories, etc. Current liabilities are obligations which become due within one year or a normal business cycle. These include accounts payable, notes payable, accrued expenses payable, etc. You may want to consider current assets as the source of funds which reduce current liabilities.

One way to measure the flow of cash and the firm's ability to maintain its cash or liquid assets is to compute *working capital.* It is the difference between current assets and current liabilities. The change in this value from period to period is called *net working capital.* For example.

	19 × 1	19 × 2
Current Assets	$110,000	$200,000
less Current Liabilities	- 70,000	- 112,000
Working Capital	40,000	88,000
Net Working Capital Increase (Decrease)		$48,000

Net working capital increased during the year, but we don't know how. It could have been all in cash or all in inventory. Or, it may have resulted from a reduction in accounts payable.

Cash Flow Statement. While net working capital shows only the changes in the current position, a "flow" statement can be developed to explain the changes that have occurred in any account during any time period. The cash flow statement is an analysis of the cash inflows and outflows.

The ability to forecast cash requirements is indeed a means of becoming a more efficient manager. If you can determine the cash requirements for any period, you can establish a bank loan in advance, or you can reduce other current asset accounts so that the cash will be made available. Also, when you have excess cash, you can put this cash into productive use to earn a return.

The change in the cash account can be readily determined if you know net working capital and the changes in current liabilities and current assets other than cash.

Let:

NWC	be net working capital
CA	be the change in current assets other than cash
CL	change in current liabilities
cash	be the change in cash

Because net working capital is the difference between the change in current assets and current liabilities,

$$NWC = CA + cash - CL$$
$$cash = NWC - CA + CL$$

This relationship states that if we know net working capital (NWC), the change in current liabilities (CL), and the change in current assets less cash (CA less cash), we can calculate the change in cash. The change in cash is then added to the beginning balance of cash to determine the ending balance.

Suppose you forecast that sales will increase $50,000 and the following will correspondingly change:

Receivables	increase by $25,000
Inventory	increase by $70,000
Accounts Payable	increase by $30,000
Notes Payable	increase by $10,000

Using net working capital of $48,000, what is the projected change in cash?

$$\begin{aligned} cash &= NWC - CA + CL \\ &= 48{,}000 - 25{,}000 - 70{,}000 + 30{,}000 + 10{,}000 \\ &= -7{,}000 \end{aligned}$$

Conclusion: Over this time period, under the condition of increasing sales volume, cash decreases by $7,000. Is there enough cash to cover this decrease? This will depend upon the beginning cash balance.

Sources and Application of Funds. At any given level of sales, it is easier to forecast the required inventory, accounts payable, receivables, etc., than net working capital. To forecast this net working capital account, you must trace the sources and application of funds. Sources of funds increase working capital. Applications of funds decrease working capital. The difference between the sources and applications of funds is the net working capital.

The following calculation is based on the fact that the balance sheet is indeed in "balance." That is, total assets equal total liabilities plus stockholders' equity.

$$\text{current assets} + \text{noncurrent assets} = \text{current liabilities} + \text{long-term liabilities} + \text{equity}$$

Rearranging this equation:

$$\text{current assets} - \text{current liabililties} = \text{long-term liabilities} + \text{equity} - \text{noncurrent assets}$$

Because the left-hand side of the equation is working capital, the right-hand side must also equal working capital. A change to either side is the net working capital. If long-term liabilities and equity increase or noncurrent assets decrease, net working capital increases. This change would be a source of funds. If noncurrent assets increase or long-term liabilities and equity decrease, net working capital decreases. This change would be an application of funds.

Typical sources of funds or net working capital are:

Funds provided by operations

Disposal of fixed assets

Issuance of stock

Borrowing from a long term source

To obtain the item, "funds provided by operations," subtract all expense items requiring funds from all revenue that was a source of funds. You can also obtain this result in an easier manner: add back expenses which did not result in inflows or outflows of funds to reported net income.

The most common nonfund expense is depreciation, the allocation of the cost of an asset as an expense over the life of the asset against the future revenues produced. Adjusting net income with depreciation is much simplier than computing revenues and expenses which require funds. Again, depreciation is not a source of funds.

The typical applications of funds or net working capital are:

- Purchase of fixed assets
- Payment of dividends
- Retirement of long-term liabilities
- Repurchase of equity.

The following is an example of how sources and applications of funds may be used to determine net working capital.

Statement of Sources & Applications of Funds

Sources of Funds:	
From Operation	
Net Income	$10,000
Add Back Depreciation (noncash item)	15,000
	25,000
Issuance of Debt	175,000
Issuance of Stock	3,000
	$203,000
Applications of Funds:	
Purchase of Plant	140,000
Cash Dividends	15,000
	155,000
Net Working Capital Increase (Decrease)	$48,000

Statement of Changes in Financial Position. This statement combines two statements previously discussed: the statement of sources and application of funds and the changes in working capital accounts. This statement can be converted into a cash flow statement by solving for cash as the unknown, as shown below.

Cash Flow Statement

Sources of Funds		$203,000
Applications of Funds		155,000
Net Working Capital		$ 48,000
Less:		
Increase in Receivables	25,000	
Increase in Inventory	70,000	- 95,000
		- 47,000
Plus:		
Increase in Accounts Payable	30,000	
Increase in Notes Payable	10,000	40,000
Cash Flow		$ - 7,000

Planning For Cash Flow

Cash flow can be used not only to determine how cash flowed through the business but also as an aid to determine the excess or shortage of cash. Suppose your analysis of cash flow forecasts a potential cash deficiency. You may then do a number of things, such as:

Increase borrowings: loans, stock issuance, etc.

Reduce current asset accounts: reduce receivables, inventory, etc.

Reduce noncurrent assets: postpone expanding the facility, sell off some fixed assets, etc.

By using a cash flow statement you can determine if sufficient funds are available from financing activities, show funds generated from all sources, and show how these funds were applied. Using and adjusting the information gained from this cash flow analysis will help you to know in advance if there will be enough cash to pay

- Suppliers' bills
- Bank loans
- Interest
- Dividends.

Careful planning will insure a sufficient amount of cash to meet future obligations on schedule which is essential for the "successful" business.

Planning Aid

The following example is presented to help you develop a cash flow analysis. Of course, all names are fictitious.

During the next month, Irene Smith, owner-manager of Imagine Manufacturing, expects sales to increase to $10,000. Based on past experience, she made this forecast:

Net income to be 9% of sales	$ 900
Income taxes to be 3.2% of sales	320
Accounts receivable to increase	5,000
Inventory to increase	[illegible]
Accounts payable to increase	3,000

Her beginning cash balance is $3,000 and she plans to purchase a piece of equipment for $1,500. What is her cash flow?

Cash Flow Analysis

Sources of Funds:	
Net Income	$ 900
Add Back Depreciation	1,000
	1,900
Application of Funds:	
Addition to Fixed Assets	$1,500
Payment of Taxes	320
	1,820
Net Working Capital Increase (Decrease)	$ 80
Working Capital Accounts:	
Less Change in	
Inventory	$ - 2,000
Accounts Receivable	- 5,000
Plus Change in	
Accounts Payable	3,000
Cash Flow	$ - 3,920
Plus Beginning Cash Balance	3,000
Equals Ending Cash Balance	$ - 920

Assuming Irene's forecast is correct, she has a cash need of $920 next month. If she cannot borrow the additional funds, she must either reduce sales, which may reduce profits, or find another source of cash. She can now use her cash flow analysis to try to determine a source of funds or a reduction in the application of funds. An easy solution is to postpone the purchase of the equipment. This would increase her cash flow by $1,500, more than enough for a positive cash balance at the end of next month.

Instructor's Final Checklist

CONTROLLING CASH FLOW

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately listed three reasons for tabulating cash flow on a monthly basis	[ ]	[ ]	[ ]

ESTABLISHING CREDIT POLICY

OBJECTIVE

Without the use of resources, list with 100% accuracy three advantages and three disadvantages of extending credit to customers.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that credit to customers must be handled in a systematic, businesslike way for it to be advantageous to a business.

TEACHING STRATEGIES	RESOURCES
Have students define policy.	Bittel, What Every Supervisor Should Know, pp. 119-124. Everard and Burrow, Business Principles and Management, pp. 473-474. Information Sheet, "A Policy Is . . .," p. 175. Massie and Douglas, Managing: A Contemporary Introduction, pp. 232-234. Spears and Vaden, Foodservice Organizations: A Managerial and Systems Approach, pp. 59-60.
Conduct the following sequence of activities to help students understand the importance of policy statements to small business. 1. Ask students the following questions: What groups do you belong to that have policies? What policies do they have? What would happen if they did not have these policies?	

2. Have students obtain a copy of the school's policy statements. Discuss the importance of policy in an organization such as a school. Have each student write a policy statement that he/she would add to the school's policy statements. Have each student share the policy statement.	
3. Have students read about credit policy. Lead a discussion on the importance of policy statements to a small business.	Everard and Burrow, Business Principles and Management, pp. 313-315. Samson, et al., Retail Merchandising, pp. 148-157.
Have students read materials on credit.	Everard and Burrow, Business Principles and Management, pp. 304-313, 315-320. Nelson, et al., Owning and Operating a Small Business, pp. 85-88. Warmke and Wyllie, Consumer Economics, pp. 121-125, 139-152.
Have students interview parents on the number and kinds of credit cards they have and on their opinions of using consumer credit.	Everard and Burrow, Business Principles and Management, p. 322, Number 3.
Lead a discussion on the advantages/disadvantages of a small business extending credit to its customers.	Nelson, et al., Owning and Operating a Small Business, pp. 85-88.

SUGGESTED EVALUATION TECHNIQUE

Have students list with 100% accuracy three advantages and three disadvantages of extending credit to customers.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Ask a local/area banker to present a chapter program on credit policies and collection procedures.

INFORMATION SHEET
ENT-029

A POLICY IS . . .

1. a broad based guide for decision making.

2. determined by the goals and objectives of the organization.

3. established by management to guide and direct everyone in the organization.

4. important for any organization that wants and needs controls.

5. followed by procedures or methods of implementation.

Instructor's Final Checklist

ESTABLISHING CREDIT POLICIES

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student listed with 100% accuracy three advantages of extending credit to customers	☐	☐	☐
The student listed with 100% accuracy three disadvantages of extending credit to customers	☐	☐	☐

IDENTIFYING LAWS AND REGULATIONS AFFECTING SMALL BUSINESS

OBJECTIVE

Without the use of resources, accurately list and explain three laws or regulations which affect small business operation.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that laws and regulations affecting small business are for the protection of the business and its customers.

TEACHING STRATEGIES	RESOURCES
Have students read materials on laws and regulations affecting small business.	Everard and Burrow, Business Principles and Management, pp. 64-78. Information Sheet, "Legal Issues," p. 179-180. Mietus, et al., Applied Business Law, pp. 141-153. Siropolis, Small Business Management, pp. 200-202.
Lead students in identifying federal, state, and local agencies that regulate business. Have students write why each agency is important to business.	Mietus, et al., Applied Business Law," pp. 151-152.
Invite government regulatory agency representatives (e.g., health department, zoning board, Internal Revenue Service) to explain the laws and regulations administered by their organizations that affect small business.	
Provide students with a list of six areas of government regulation that specifically affect small business. Divide the students into six groups. Assign each group one regulation to research and present a report to the class.	Siropolis, Small Business Management, p. 201.

SUGGESTED EVALUATION TECHNIQUE

Have students accurately list and explain three laws or regulations which affect small business operation.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Invite an attorney to present the legalities involved in developing and maintaining a small business.

LEGAL ISSUES

I. Dealing with legal issues affects all entrepreneurships.

   A. Small entrepreneurships may not have many legal issues.

      1. A sole-proprietor will have income tax and Social Security.

      2. A business permit may be needed.

      3. There may be local/area laws.

      4. Home business may have special laws.

   B. Large entrepreneurships will have many laws to consider.

      1. There will be contracts with other businesses and with employees.

      2. There will be laws about interstate commerce.

      3. There will be laws about partnerships, corporations, and stockholders.

II. There are many laws at all levels of government.

   A. These laws help protect the American free enterprise economic system.

   B. The government protects employees.

      1. Equal Employment and Opportunity Act.

      2. Fair Labor Standards.

      3. Occupational Safety and Health Act.

      4. National Labor Relations Act.

   C. The government protects the environment.

      1. Environment Protection Agency.

      2. Anti-pollution Acts.

D. The government protects the consumer.

    1. Product/service regulations.

    2. Advertising regulations.

Adapted from Hiatt, Introduction to Entrepreneurship, p. 325-329.

Instructor's Final Checklist

IDENTIFYING LAWS AND REGULATIONS AFFECTING SMALL BUSINESS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately listed three laws or regulations which affect small business	[ ]	[ ]	[ ]

COMPLETING TAX FORMS

OBJECTIVE

Given data and blank small business tax forms from the Internal Revenue Service's Small Business Tax Workshop Workbook, complete the forms in accordance with the Internal Revenue Service regulations.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of accuracy in gathering and reporting taxable items when completing tax forms.

TEACHING STRATEGIES	RESOURCES
Have students read materials on business taxes.	Everard and Burrow, Business Principles and Management, pp. 73-78. Information Sheet, "Getting the Facts for Income Tax Reporting," pp. 185-188. Lasselle, Recordkeeping: The Total Concept, pp. 603-611. Petersen and Lewis, Free Enterprise Today, pp. 382-396. Samson, et al., Retail Merchandising, pp. 492-495. Siropolis, Small Business Management, pp. 535-551. Warmke and Wyllie, Consumer Economics, pp. 376-387.
Discuss with students the three most common types of business taxes, i.e., income, sales, and property.	Everard and Burrow, Business Principles and Management, pp. 76-77.
Invite an accountant to present examples and explain the necessary records to keep for income, sales, and property taxes.	

Have a tax expert identify and explain the tax laws which affect small business.	
Have an accountant or tax consultant lead the students in filling out the federal and state tax forms which are necessary for small business owners/operators.	Internal Revenue Service, "Information for Business Tax Payers," Bulletin Number 583, and "Employment Taxes," Bulletin Number 539.

SUGGESTED EVALUATION TECHNIQUE

Provide students with data and blank small business tax forms (Internal Revenue Service, Small Business Tax Workshop Workbook). Have them complete the forms in accordance with Internal Revenue Service Regulations.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Sponsor a Tax Help Day for anyone needing assistance with the completion of tax forms.

U.S. Small Business Administration
Office of
Business Development

Management Aids
Number 1.014

SBA

Getting the Facts for Income Tax Reporting

By William C. Greene
Certified Public Accountant, Wellesley, Massachusetts
Formerly, chairman
Small Business Committee
Massachusetts Society of Certified Public Accountants

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Summary

When the facts are in proper order, Federal income tax reporting is greatly simplified. Proper recordkeeping procedures are the key to accumulating the information necessary for computing the return schedules and the tax.

Although no specific records are required by the Internal Revenue Service, the owner-manager of a small business must be able to prove the statements made on the tax return. This Aid gives suggestions on bookkeeping techniques that can affect taxes as well as simplify the task of accumulating necessary information.

April 15—Income Tax Day—is a mirror that reflects all the business days of the year for sole proprietors and partners. It is a confused reflection for some owner-managers of small firms because of poor recordkeeping. It is a clear reflecton for other owner-managers because of good recordkeeping.

Day by day, week by week, and month by month, good records accumulate the facts you, the owner-manager, need for income tax reporting. These facts help you to report your income tax properly, to take proper tax deductions, and to back up that report should you be asked to do so.

No Set Records Required

The Internal Revenue Service (IRS) prescribes no specific accounting records, documents, or systems. However, the IRS requires that you maintain permanent books of account or records which can be used to identify your firm's income, expenses, and deductions. Where inventories are factors in determining income correctly, or when travel and entertainment deductions are taken, special supporting details are required.

Although IRS requires no particular form of records, your record must be accurate and reflect taxable income and allowable deductions. Records must also be kept so they are available for inspection by IRS officers.

In most tax matters, the burden of proof lies with the taxpayer. Therefore, your records must reflect all your income and all your expenses, just in case they are inspected by an IRS agent. Otherwise, IRS may disallow any deductions which you have made and cannot substantiate. As a result, you may have to make an additional tax payment.

In addition, if you have adequate records, all the facts you need for filing a tax return are easily accessible. You are less likely to make a late filing for which there are severe charges and penalties. Moreover, you remove any suspicion of willful negligence and fraud for which a person can be fined or imprisoned.

A Simple System

If your small business is a sole proprietorship, you can use a simple set of records to capture facts for income tax reporting. Such a system consists of a check book, a cash receipts journal, a cash disbursements journal, and a petty cash fund.

Check Book. All funds that pass in and out of your store or service shop should go through a checking account which you set up for your business. (The owner-manager should handle personal expenses in a separate checking account.) When used with your other records, the check book helps you to prove how much money was handled, how much was taxable income, and what amounts were deductible for income tax reporting. You should reconcile your bank statement monthly, using the proof totals from your receipts and disbursements journals to check your work.

Cash Receipts Journal. All receipts should be entered in a receipts journal. In this manner, income that is not realized from sales—for example, advertising allowances—is separate from receipts that have to be reported as "gross receipts or gross sales." Sales taxes which you collect for the local or State government should also be kept separate because they are not business income.

Cash Disbursements Journal. All funds that are paid out should be recorded in a cash disbursements, purchases, and expense journal. The best practice is to enter daily in this journal each check you write. Each entry should show the nature or clasification of the disbursement—merchandise, office supplies, rent and employee wages, to mention a few examples. You can summarize the expense classifications by extending each entry into a column monthly. This type of journal may be created by either posting each check stub regularly to a line in the journal or by using one of the "one-write" pegboards which are available from several commercial suppliers.

Petty Cash Fund. You should keep a petty cash fund with voucher slips to document each expenditure. In this manner, you can prove that cash expenditures—those of an amount too small to justify writing a check—are deductable for tax filing. A petty cash fund also eliminates your paying for miscellaneous small expenses out of your own pocket.

Other Records

Under even the simplist system, a fixed asset record is needed. In this manner, you record all equipment, buildings, vehicles, and other depreciable assets.

In addition, there is a variety of depreciation techniques such as accelerated methods and special "first year" additional depreciation which, in some cases, should be used to defer or reduce tax costs. (Investment credit applicability is also a factor. A good record of your assets is essential to plan for and get maximum tax advantages in these areas of fixed assets.) Under the Revenue Procedure 62-61, depreciation schedules and records must be kept for at least as long as the replacement cycle to substantiate the guideline lives which IRS allows.

Employers who withhold taxes from wages have to keep additional and extensive records. If you have one or more employees, you may be required to withhold Federal income tax from their wages. Your payroll records must include the amounts and dates of all employee wage payments subject to withholding taxes. You should keep such records for at least 4 years after the date the tax becomes due or is paid, whichever is later.

Corporations and Partnerships. If your business is a small corporation or a partnership, your records must cover situations that do not exist in a sole proprietorship. In a corporation, the records must show the salaries paid to its officers and the dividends paid to stockholders. The owner-manager, as an officer of the corporation, is responsible for filing an income tax return for the company and a personal return to pay income tax on salary and dividends received from the corporation. If the business is a partnership, it files an information return on Form 1065 indicating the income or loss assignable to each partner. Each partner then files a personal return and includes his or her share of partnership income with his or her other taxable income. The legal form of your organziation can have a substantial effect on taxes, and both legal and accounting advice will be important in selecting the best form of business for your particular needs.

Retaining Records

You should keep the records which you use to prepare your firm's income tax return. You should keep them as long as their contents may become material in the administration of anv Internal Revenue law.

Keep records that support an item of income or deduction on a tax return until the statute of limitations runs out. Usually, the statute of limitations for an income tax return ends three years after the return is due or filed, or two years from the date the tax was paid, whichever occurs later. The major exception to this time period is found in cases where the taxpayer omitted over 25 percent of gross income or filed a false or fraudulent return. In many cases, however, you must keep records indefinitely. For example, if you change your method of accounting, records supporting the necessary adjustments may be needed for an indefinite time.

Among records often considered permanent are cash books, depreciation schedules, general ledger, journals, financial statements and audit reports. Records to be retained 6 or 7 years often include accounts payable and receivable, cancelled checks, inventory schedules, payroll records, and sales vouchers and invoice details.

Collection of delinquent tax occurs under different time guidelines. Generally, the Internal Revenue Service cannot bring collection proceedings for a given taxable year after six years have elapsed from the date the liability was assessed.

Copies of income tax returns should always be retained. Retaining records helps the taxpayer as well as the IRS because it is often to the taxpayer's advantage to use carry-back claims and amended returns. In such cases, you must be able to prove that your tax returns are correct.

Plan with Records

As the owner-manager of a small business, you should use your records to plan your income tax. The government wants you to pay only your legal obligation—no more and no less.

This fact has been best expressed by the late Judge Learned Hand, who said, "Over and over again courts have said that there is nothing sinister in arranging one's affairs to keep taxes as low as possible. Everybody does so, rich or poor; and all do right, for nobody owes any public duty to pay more than the law demands."

Your accounting system should provide a current indication of the profitability of your business. Thus, your records help you to make a sound estimate of taxable income for the year, and consequently, the projected tax bracket of your business. You should review these figures at least once each quarter during the year to see what, if any, steps you can take to minimize your tax.

Revised 1983

When making tax payments, it is essential that your accounting system provide a basis for your estimate. Where underpayment has already occurred, the system should substantiate the timing of income to avoid or mitigate penalties.

An employee benefit plan may offer tax advantages. For the smallest entrepreneur, the self-employed retirement deduction can be very beneficial. However, as in the case of any pension or profit sharing plan, the decision of whether or not to adopt such a plan or on what basis, depends on what your accounting system projects for profits and available cash.

Outside Help

Unless your background includes bookkeeping or accounting, you should use outside help in setting up your records. An accountant can help you determine what records to keep and what techniques will insure that you don't pay unnecessary tax.

For example, because of poor records one small owner unnecessarily included $30,000 of installment sales as taxable income even though they would not be earned for 2 or 3 years. At a 22 percent tax rate, more than $6,500 "extra" taxes were paid.

Inventory costing is another example of the need for sound records. Your records should allow you to substantiate a correct but minimum income valuation.

An accountant can also advise you on the most economical way of maintaining records. For example, some small businesses need only a part-time bookkeeper or can use a bookkeeping service. Still other firms need a full-time employee to keep records up-to-date.

In addition, accountants and lawyers can advise of changes in tax laws that may require adjustments in the kinds of facts necessary for tax reporting.

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Instructor's Final Checklist

COMPLETING TAX FORMS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student completed small business tax forms in Internal Revenue Service (IRS) Small Business Tax Workshop Workbook in accordance with IRS regulations	☐	☐	☐

Instructor's Guide Sheet ENT-032

BEING A RESPONSIBLE ENTREPRENEUR

OBJECTIVE

Without the use of resources, accurately list four ways an entrepreneur can demonstrate responsibility.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that a successful entrepreneur has personal and professional responsibilities and obligations.

TEACHING STRATEGIES	RESOURCES
Discuss with students responsible behaviors of successful entrepreneurs. Ask questions such as: To whom are entrepreneurs responsible? How can being responsible contribute to an entrepreneur's success?	Hanson, Entrepreneurship: A Career Alternative, pp. 19-22. Everard and Burrow, Business Principles and Management, pp. 15-17.
Invite an entrepreneur to share responsibilities to the following groups: customers, workers, competitors, investors, and the public.	
Discuss with students the responsible behavior shown by entrepreneurs who have business life insurance.	Information Sheet, "Business Life Insurance," pp. 192-196.
Invite an insurance agent to present the types of insurance important to entrepreneurs.	

SUGGESTED EVALUATION TECHNIQUE

Have students accurately list four ways an entrepreneur can demonstrate responsibility.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Have a chapter meeting on how to be more responsible members of the organization.

U.S. Small Business Administration
Management Assistance
Support Services

Management Aids
Number 2.009

SBA

Business Life Insurance

Prepared by the
Institute of Life Insurance
New York, N.Y.

Summary

Business life insurance provides protection for the owner-manager of a small business. When an owner-manager dies, this type of insurance can provide a financial cushion for his or her family and employees.

This *Aid* discusses the "what's" and "why's" of business life insurance as they apply to small business owners who are involved in sole proprietorships, partnerships, or small corporations.

When the life savings of an owner-manager are invested in a small business, what happens when he or she dies? Does the business close? Does the family have to stand by and watch those savings go down the drain?

To a great extent, what happens at the owner-manager's death depends on what he or she did before that event. You can protect your business and family with business life insurance. However, if you are owner-manager of a small business, the insurance should be tailored to your particular business and the needs of your family.

You will want to be certain that business life insurance covers every angle of your business. To do this, check with people who know about life insurance and your business. Among those who can help are your attorney, your accountant, your banker, and your life insurance agent or broker.

Your agent or broker can provide technical advice about the arrangement of policies. The others will give you the essential information upon which your plan is based. They can also help you to see that the legal aspects are taken care of.

Purposes of Insurance

Business life insurance can be written for numerous specific purposes. Chief among these are:

A sole-proprietorship insurance plan to provide for maintenance of a business upon the death of the sole-proprietor.

A partnership insurance plan to retire your partner's interest at death and vice versa.

A corporation insurance plan to retire your shareholder's interest at death and vice versa.

Key employee protection to reimburse for loss and to provide a replacement in the event of your key employee's death. Such insurance helps to prevent a setback that develops because of losing a vital employee.

Group plan for employees. A group annuity or pension plan may be desirable where the number of employees is sufficiently large. Where only a few are involved, some form of individual retirement policy could be used, with the cost shared by employer and employees in any proportion desired.

Reserve for emergencies. Most business life insurance plans utilize life insurance which has cash value. This cash value, growing over the years, provides the firm with a valuable reserve for emergencies in the event of any sharp dislocation in business conditions. When necessary, the policy cash value can be used as the basis for loans.

Where your estate consists entirely of your interest in the business, insurance on your life, payable to your family on your death, provides them with ready cash and aids in liquidating your interest in the business. business.

Keep in mind in preparing a life insurance plan that too much weight should not be given to the tax angles because they are constantly changing, and a plan set up today on the basis of a certain tax advantage may prove to be disadvantageous next year. The tax factors should be left to the interpretation of the experts.

Business Life Insurance for the Sole-Proprietor

As was mentioned earlier, life insurance protection provides an owner-manager's dependents or heirs with cash representing the sound valuation of the business at his or her death. Such insurance can also assure business continuity.

Arranging Your Business Policy. There are several considerations that you should recognize, such as:

—making sure that your policy adequately meets the conditions of a will or trust agreement if selling or liquidating your business is desired,

—being aware of the need to select an appropriate beneficiary, and

—determining who is to pay the insurance premiums.

A most important consideration is who takes "custody" of your business in case of your death. The owner-manager who does not prepare for the future leaves his or her family open for confusion and loss.

Look for problems and provide for them. For example, suppose your business is left to your son or other heir. Suppose further that the designated heir may not be capable of running the business. With your knowledge and experience you can see friction developing among the other heirs or employees. The heir designate may be a minor.

To solve this problem you could consider the possibility of an executor taking over. The executor might hire a manager who may not do the best job possible because the manager realizes that the job is temporary.

If your business is transferred by sale to employees, or outsiders, there might be controversy over valuation. There might even be trouble over availability of funds to carry out the transfer.

Funds Will Be Needed. Whichever way you choose to dispose of your business, funds will be needed—and quickly. Debts, taxes, and administrative costs have to be met. Income for your family must be provided.

Also, if your family is continuing the business and if nobody in the family has the necessary experience, someone will probably have to be hired to manage the firm. The business will need working capital at least for a period of readjustment.

Possibly your employees will take over the business. They will need funds for the purchase of the business, at least in part.

If your business is sold outright, working capital will be needed for the transition period. Perhaps some funds may be needed to meet the probable discounting of assets which may accompany such a sale.

Keep in mind that the important thing is to tailor business life insurance to fit your needs. Decide what you want to happen to your firm and your family, and then plan accordingly.

Business Life Insurance for the Partnership

Unless the partners have provided otherwise, a partnership dissolves when one of them dies.

In the absence of legal safeguards to avoid dissolution, a partnership automatically dissolves at the death or shortly after the death of a partner. For practical purposes, the business is finished. The surviving partners become "liquidating trustees."

The only business allowed is that of winding up affairs of the partnership. If the business is continued, the surviving partners become personally liable for any losses incurred should assets not cover losses.

One way to avoid these difficulties is an adequately financed buy-and-sell agreement. Such an agreement provides for the purchase at a prearranged valuation of your deceased partner's interest. Your attorney can draw up the necessary papers carrying out the wishes of your partners and you.

If a buy-and-sell agreement is decided upon, the next step is to fund the arrangement. It can be done through life insurance.

Ways To Set Up Plan. There are various ways of establishing your partnership insurance plan, each with advantages for particular requirements.

One plan involves the purchase by each partner of a policy on the life of the other partners. Each partner pays the premiums. Another plan where there are three or more partners is to have the firm buy a policy on the life of each partner.

The question of how much premiums each should pay, the amount of insurance needed, the beneficiary arrangements, tax effects, policy assignments necessary, comprise a few of the loads of questions involved.

Valuation. The valuation of your partnership is one of the most vital of all problems to be met in setting up a partnership insurance. Here you are trying to set up a formula under which full value is to be paid the deceased partner's heirs at some future time. The formula must be equitable and must satisfy all partners or it could become the basis of long-running controversy.

There are many bases of valuation. Simplest is the plan which sets an arbitrary value on each partner's interest in advance. Such a plan avoids later arguments.

However, it does not provide for the possibly rapid shift in value through growth of the business.

If this type of plan is used, the formula for settlement could simply be a fixed valuation for goodwill, plus the net book value (current value of assets, minus liabilities).

Corporation Business Life Insurance

Because the success of a corporation depends largely on the abilities of the people who run it, the death of any one of them holds the possibility for financial loss to the corporation. Life insurance is useful to protect the corporation against the loss of the services of its executives. It can also provide funds for their replacement.

In dealing with corporation life insurance as it applies to small business, the word "corporation" applies primarily to the close corporation—one with a few stockholders, all of whom usually are actively engaged in the management of the business.

Death of the principal stockholder in a close corporation may lead to management or personnel clashes which might seriously affect the business. It can cost you in the form of credit impairment, or direct loss of business, or damage to your employee morale.

Unless otherwise provided, the deceased stockholder's stock becomes a part of the estate and passes into the hands of the administrator of the estate during the period of settlement. The administrator can vote the stock. If it is a controlling interest, he or she could even name a new board of directors and take over full control.

Should a principal stockholder die, therefore, many questions are raised automatically.

Will management deteriorate if the heirs stay in?

Will the heirs have the ready cash needed to meet death costs?

Can money be found by the surviving stockholders to buy out the heirs?

Will adequate income be provided the heirs if they retain the stock?

Can a buyer be found for the stock?

Will the firm's credit stand up under such a strain?

How long will the whole matter be held in controversy?

Will the firm's sale hold up?

Will the employees become resistive?

These are just a few of the questions that may arise. Failure to take proper steps to meet them might readily cause serious financial loss and possibly bring the business to an end.

All these questions can be met and the hazard eliminated through a stock purchase and sale agreement with life insurance written into it to guarantee the funds for carrying it out. Such an agreement determines in advance just what will be done upon the death of a stockholder. It also makes funds immediately available, at that time for accomplishing the objectives of the plan.

Benefits. The benefits of having such a plan are many. Continuity of management without interruption is guaranteed. No outsiders can come into the business unless agreed upon in advance.

The cash needed to carry out the purchase of the stock is automatically provided on a basis previously agreed to as fair. The common causes of friction between heirs and surviving stockholders are removed.

Finally, widows or heirs are not burdened by business responsibilities or worries. Having a guaranteed price, they are protected against shrinkage of stock values.

Periodic Checkup

Once an owner-manager has set up an insurance program for his or her business, he or she should check it periodically.

Financial conditions change, tax laws vary in effect, valuations of the interest of the owners are never constant — to mention but a few of the changing conditions that can affect the plan.

Revaluations should be made whenever necessary in connection with buy-and-sell agreements and partnership and corporation policies.

Changes in tax laws suggest a need for a special checkup to make certain than your tax angles are adequately covered. At least once each year, the plan should go through this careful screening by your life insurance agent or broker.

Results

A suitable business insurance program can be of value to you in many ways. It can, for instance,

—assure immediate funds to meet taxes, debts, and administrative expenses,

—provide income for your heirs,

—equitably distribute the property value to your heirs,

—enable your executor, administrator, or trustee to dispose of the business to the best advantage if the family is not taking over,

—put your family on sound financial footing if it is assuming direction of your business,

—stabilize the credit of your business, and

—help to maintain good employee relations by eliminating uncertainties and hazards.

Instructor's Final Checklist

BEING A RESPONSIBLE ENTREPRENEUR

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately listed four ways an entrepreneur can demonstrate responsibility	[ ]	[ ]	[ ]

DETERMINING INVENTORY NEEDS

OBJECTIVE

Without the use of resources, accurately describe a product or service to be sold by a small business and list the necessary beginning inventory in accordance with the Instructor's Final Checklist.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of having appropriate inventory.

TEACHING STRATEGIES	RESOURCES
Have the students read materials on product and service inventory.	Everard and Burrow, Business Principles and Management, pp. 176-181. McFarlane, Getting Down to Business: What's It All About? pp. 76-78. Siropolis, Small Business Management, pp. 509-514.
Invite a small business owner/operator to share the process of determining the inventory he/she stocks.	
Divide students into small groups. Have each group select a small business and write a short description of the product or service it sells. Have each group develop a list of beginning inventory items. Lead the students in group discussion following each group's report. Ask questions such as: How did you decide the necessary inventory items? Why is it important to be familiar with your product/service when determining necessary beginning inventory items?	

SUGGESTED EVALUATION TECHNIQUE

Have each student accurately describe a product or service to be sold by a small business and list the necessary beginning inventory in accordance with the Instructor's Final Checklist.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Determine the inventory needed for a chapter/school small business project.

Instructor's Final Checklist

DETERMINING INVENTORY NEEDS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

The student:

	Fully Accomplished	Not Accomplished	Not Applicable
a. Described a product or service to be sold by a small business	☐	☐	☐
b. Determined supplies necessary for making the product or supplying the service	☐	☐	☐
c. Estimated the appropriate quantity of the necessary supplies	☐	☐	☐

SELECTING SUPPLIERS

OBJECTIVE

Knowing the product or service to be available through a given small business, accurately list three local/area suppliers, and give one customer service provided by each.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of considering the customer services offered by suppliers.

TEACHING STRATEGIES	RESOURCES
Provide students with information on selecting suppliers.	Information Sheet, "Guidelines for Selecting Suppliers," p. 204.
Lead students in developing criteria for selecting suppliers.	
Have each student select a business. Have students use local/area telephone directory yellow pages and knowledge of local/area business as a basis for developing supplier lists for their businesses.	
Invite a purchasing agent to explain the importance of supplier services to the total purchasing operation.	
Have students contact various local/area suppliers to determine customer services each provides.	

SUGGESTED EVALUATION TECHNIQUE

Provide students with a product or service name. Have them accurately name three local/area suppliers and give one customer service each provides.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Investigate and list all possible local/area suppliers for a chapter/school small business project.

INFORMATION SHEET
ENT-034

GUIDELINES FOR SELECTING SUPPLIERS

1. List all possible suppliers.

2. Narrow list by looking closely at product quality, price, and supplier services.

3. Determine purchasing policy of business.

4. Determine the buying plan. Determine to use either buying plan a or b.
    a. The buyer selects a supplier first and they work together to meet the buyer's needs.
    b. The buyer prepares product specifications (precise, formal statements of all the characteristics in a product required to fill specific production needs) and then uses bid buying procedures.

5. Assess the supplier's willingness to participate in the buying plan.

6. Determine the special services offered to customers.
    a. Delivery schedule.
    b. Special deliveries.
    c. Credit terms.
    d. Minimum order requirements.
    e. Lead time (the time between the order placement and the delivery of the product).
    f. Returns policy.
    g. Substitution policy.
    h. Consulting service.

Adapted from Stefanelli, Purchasing: Selection and Procurement for the Hospitality Industry, pp. 153-166.

Instructor's Final Checklist

SELECTING SUPPLIERS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately named three local/area suppliers for a given product or service	☐	☐	☐
The student accurately gave one customer service provided by each local/area supplier	☐	☐	☐

Instructor's Guide Sheet ENT-035

DETERMINING ORDER PLACEMENT GUIDELINES AND PLACING ORDERS

OBJECTIVES

(1) Without the use of resources accurately write five order placement guidelines.

(2) Given a list of five items to order and a blank purchase order form, complete the form in accordance with the Instructor's Final Checklist.

ATTITUDES/VALUE TO BE DELIVERED

The student will appreciate the importance of accurate order placement.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students read materials on ordering products.	Everard and Burrow, Business Principles and Management, pp. 181-182. Samson, et al., Retail Merchandising, pp. 255-256. Siropolis, Small Business Management, pp. 512-513.
Invite a purchasing agent, buyer, or owner/operator of a small business to explain the ordering procedure for the business.	
Lead students in developing guidelines for placing orders.	
Objective 2	
Define purchase order. Have students obtain one or more purchase order forms from local/area businesses.	McFarlane, Getting Down to Business: What's It All About? pp. 78-79.
Demonstrate to students the correct procedure to follow when filling out a purchase order.	

SUGGESTED EVALUATION TECHNIQUES

(1) Have students write five order placement guidelines.

(2) Provide students with a list of five items to order and a blank purchase order form (p. 209). Have them complete the form in accordance with the Instructor's Final Checklist.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Have a committee develop the inventory needed for a chapter/school small business project, select the supplier(s), and place the order(s).

SAMPLE PURCHASE ORDER

Page 1 of

Purchasing Official

VENDOR'S COMPLETE MAILING ADDRESS	Phone Number:
COMPANY NAME AND COMPLETE MAILING ADDRESS	
SHIP TO: (If different than above)	

Purchase Order No. 71982	
Order Date	Required Delivery Date
ACCT. #	
P.O. #	
Terms	
Deliver on or Before	Vendor No.

ITEM NUMBER	PRODUCT DESCRIPTION	QUANTITY	UNIT PRICE	EXTENDED PRICE

Amount in last column is the total cost.

NOTES:

AUTHENTICATION STAMP

AUTHORIZED PURCHASING AGENT SIGNATURE ______ DATE ______

AUTHORIZED VENDOR SIGNATURE ______ DATE ______

Instructor's Final Checklist

DETERMINING ORDER PLACEMENT GUIDELINES AND PLACING ORDERS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

Note to Instructor: For a one-semester course, use the checklist statement(s) for Objective 1. For a one-year course, use the statement(s) for both objectives.

	Fully Accomplished	Not Accomplished	Not Applicable
Objective 1			
The student accurately wrote five order placement guidelines	☐	☐	☐
Objective 2			
The student put the following information on a blank purchase order form:			
a. Names and addresses of both buyer and seller	☐	☐	☐
b. Date of order	☐	☐	☐
c. Quantity of product ordered	☐	☐	☐
d. Description of product	☐	☐	☐
e. Unit cost of product	☐	☐	☐
f. Extension of cost of product	☐	☐	☐
g. Total cost of order	☐	☐	☐
h. Delivery date	☐	☐	☐
i. Signatures of both buyer and seller	☐	☐	☐

Instructor's Guide Sheet ENT-036

DETERMINING RECEIVING GUIDELINES AND RECEIVING ORDERS

OBJECTIVES

(1) Without the use of resources, accurately write four order receiving guidelines.

(2) Without the use of resources, accurately define product rotation, product dating, and product quality checks.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that inventory control is more efficient when appropriate receiving procedures are used.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students read materials on receiving products.	Everard and Burrow, Business Principles and Management, pp. 182-187. Information Sheet, "Essentials for Good Receiving," p. 213. Samson, et al., Retail Merchandising, pp. 416-425.
Invite a receiving agent or an owner/operator of a small business to share the receiving procedure for the business.	
Lead students in developing guidelines for receiving orders.	
Objective 2	
Define invoice. Provide students with sample invoice forms from local/area businesses.	
Have a receiving agent or an owner/operator of a small business explain product rotation, product dating, and product quality checks.	

SUGGESTED EVALUATION TECHNIQUES

(1) Have students accurately write four order receiving guidelines.

(2) Have students accurately define product rotation, product dating, and product quality checks.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Have a committee serve as a receiving agent for chapter activities products.

INFORMATION SHEET
ENT-036

ESSENTIALS FOR GOOD RECEIVING

1. Trained personnel should be placed in charge of receiving product.
2. Proper receiving equipment is a must; it varies according to the products.
3. Proper receiving facilities are necessary. The area should have adequate lighting, be large enough to accommodate deliveries, and be convenient for the delivery people and receivers.
4. Proper receiving hours should be scheduled.
5. A copy of all the purchasing forms should be available to the receiver as a reference.
6. A copy of the purchase order should be handy.

Adapted from Stefanelli, Purchasing: Selection and Procurement for the Hospitality Industry, pp. 197-198.

Instructor's Final Checklist

DETERMINING RECEIVING GUIDELINES AND RECEIVING ORDERS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

Note to Instructor: For a one-semester course, use the checklist statement(s) for Objective 1. For a one-year course, use the statement(s) for both objectives.

	Fully Accomplished	Not Accomplished	Not Applicable
Objective 1			
The student accurately wrote four order receiving guidelines	[ ]	[ ]	[ ]
Objective 2			
The student accurately defined product rotation	[ ]	[ ]	[ ]
The student accurately defined product dating	[ ]	[ ]	[ ]
The student accurately defined product quality checks	[ ]	[ ]	[ ]

DETERMINING REORDER PROCEDURE

OBJECTIVE

Without the use of resources, accurately identify one reorder procedure.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of knowing how and when reordering of inventory should be done.

TEACHING STRATEGIES	RESOURCES
Provide students with information on the par stock approach to reordering.	Information Sheet, "Par Stock Approach to Reordering," p. 216.
Invite a purchasing agent or an owner/operator of a small business to explain the reorder procedure for the business.	
Lead students in discussing reorder procedures. Ask questions such as: What reorder procedures are used at your home? What reorder procedures are used at the place you currently work or have worked?	

SUGGESTED EVALUATION TECHNIQUES

Have students accurately write one reorder procedure.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Designate a chapter purchasing agent. Establish and implement a reorder procedure for products for chapter activities.

INFORMATION SHEET
ENT-037

PAR STOCK APPROACH TO REORDERING

Par stock is a level of inventory items that an owner/operator feels must be on hand to maintain a continuing supply of each item from one delivery date to the next.

Assume that a restaurant owner likes to keep a par stock of 4 cases of tomato catsup between orders. On Monday morning, when the order is placed to be delivered on Tuesday morning, there are 2.5 cases left. If the half case will be used on Monday, 2 cases will be left on Tuesday morning. Subtracting what will be in stock on Tuesday, when the order is received, from the par stock, 4 minus 2, 2 cases of tomato catsup are ordered.

Par stock is used for items of all types.

Adapted from Stefanelli, Purchasing: Selection and Procurement for the Hospitality Industry, pp. 103-105.

Instructor's Final Checklist

DETERMINING REORDER PROCEDURE

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately identified one reorder procedure . . .	[ ]	[ ]	[ ]

Instructor's Guide Sheet ENT-038

IDENTIFYING INVENTORY METHODS AND COMPLETING FORMS

OBJECTIVES

(1) Without the use of resources, accurately name two methods of taking inventory.

(2) With the assistance of school personnel and in accordance with their specifications, help take inventory for a school program/service/operation.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that efficient and effective inventory procedures and the accurate recording of inventory are imperative to successful business operation.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students define periodic and perpetual inventory methods.	Lasselle, *Recordkeeping: The Total Concept*, pp. 236-239, 241-244. Samson, et al., *Retail Merchandising*, pp. 474-476. Small Business Administration, "Stock Control for Small Stores."
Have students complete activities on periodic and perpetual inventory methods.	Activity Sheet, "Periodic and Perpetual Inventory Methods," p. 221.
Invite a stock clerk or small business owner/operator to explain the inventory method used in the business operation.	
Objective 2	
Invite a franchise business owner/operator to lead the students in filling our periodic and perpetual inventory forms.	

SUGGESTED EVALUATION TECHNIQUES

(1) Have students accurately name two methods of conducting inventory.

(2) Determine school programs/services/operations that inventory items (e.g., athletic department, music department, food service program, main office). Have students assist with taking inventory according to program/service/operation personnel specifications.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Carry out department inventory and complete the appropriate forms.

ACTIVITY SHEET
ENT-038

PERIODIC AND PERPETUAL INVENTORY METHODS

Inventory levels can be monitored periodically or perpetually. In either case, the method of inventory involves checking the in-stock product amounts against the last inventory notations. The resulting amounts will show the product sales record and/or the usage from the previous inventory check. From the inventory checks, a business owner can determine sales and usage percentages, possible product loss from theft or waste, business gains or losses, and/or customer preferences.

Finish the inventory sheet below. It will show the current inventory and the products-on-hand for a small business.

Product Name	Beginning Inventory as of 5/31/87	Current Inventory as of 7/31/87	Product Sales/Usage
Lounge chair, leather	17	13	4
Lounge chair, cloth	9		1
Sofa, sectional		6	5
Sofa, one-piece	19		2
Lamp, table	18	12	
Lamp, floor		13	0

Answer the following questions:

1. Is this a periodic or perpetual inventory? Why?
2. What are the "best sellers" in this small business?
3. How can the owner use this information to place the next furniture order?

Instructor's Final Checklist

IDENTIFYING INVENTORY METHODS AND COMPLETING FORMS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

Note to Instructor: For a one-semester course, use the checklist statement(s) for Objective 1. For a one-year course, use the statement(s) for both objectives.

	Fully Accomplished	Not Accomplished	Not Applicable
Objective 1			
The student accurately named two methods of taking inventory	[ ]	[ ]	[ ]
Objective 2			
The student assisted school personnel in taking inventory for a school program/service/operation in accordance with their specifications	[ ]	[ ]	[ ]

PRICING PRODUCTS/SERVICES

OBJECTIVE

Given the figures, accurately calculate three pricing problems.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that the pricing of products/services must be competitive in the local/area market yet in line with the value of the products/services.

TEACHING STRATEGIES	RESOURCES
Have students read materials on pricing products/services.	Everard and Burrow, Business Principles and Management, pp. 188-194. Petersen and Lewis, Free Enterprise Today, pp. 46-60. Samson, et al., Retail Merchandising, pp. 258-260, 266-268. Siropolis, Small Business Management, pp. 423-425. Warmke and Wyllie, Consumer Economics, pp. 431-448.
Invite a local retail businessperson to share how prices are determined for the operation.	
Have students complete pricing activities.	Samson, et. al., Retail Merchandising, pp. 264, 271, and Problem Solving on 272.

SUGGESTED EVALUATION TECHNIQUE

Provide students with figures (p. 224) and have them accurately calculate three pricing problems.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Price products/services for a chapter/school small business project.

SUGGESTED EVALUATION TECHNIQUE
ENT-039

PRICING PROBLEMS

1. A merchant pays his supplier $30 for a hedge trimmer. It is sold for for $45. What is the markup percentage of retail?

2. What is the markup percentage of cost for Problem No. 1?

3. A merchant buys garden rakes for $10.00. The markup on the rakes is 40%. For what does the merchant sell each rake?

Answers:

1. Markup Percentage of Retail $= \frac{\text{Markup in Dollars}}{\text{Retail Price}}$

$= \frac{\$15}{\$45}$

$=$ 33 1/3%

2. Markup Percentage of Cost $= \frac{\text{Markup in Dollars}}{\text{Cost Price}}$

$= \frac{\$15}{\$30}$

$=$ 50%

3. $10. x 40% = $ 4.00 markup
$10. + 4. = $14.00 selling price

Instructor's Final Checklist

PRICING PRODUCTS/SERVICES

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately calculated three pricing problems . .	☐	☐	☐

DETERMINING PROCEDURES FOR HIRING AND DEVELOPING AN APPLICATION FORM

OBJECTIVES

(1) Without the use of resources, accurately define job specifications, job descriptions, applicant recruitment, and job application form.

(2) Without the use of resources, accurately list ten items that would be useful on a small business application form.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate that the hiring of the most effective employees for a small business is the result of appropriate hiring procedures and an application form that contains useful information.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students define job specification, job description, applicant recruitment, and job application form. Discuss how each relates to the employee hiring procedure.	Everard and Burrow, Business Principles and Management, pp. 413-419. Information Sheet, "Staffing Your Store," pp. 229-233.
Invite a personnel director of a company or an owner/operator of a business to discuss the procedures used in hiring employees.	
Objective 2	
Provide students with examples of job application forms from various businesses. Lead a discussion on the similarities and differences found among the forms.	
Have students work in small groups to develop one-page application forms. Have each group share with the class.	

SUGGESTED EVALUATION TECHNIQUES

(1) Have students accurately define job specification, job description, applicant recruitment, and job application form.

(2) Have students accurately list ten items that would be useful on a small business application form.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Have the chapter executive council review and revise the qualifications and application form for chapter officers.

U.S. Small Business Administration
Management Assistance
Support Services

Management Aids
Number 5.007

SBA

Staffing Your Store

By Walter E. Greene
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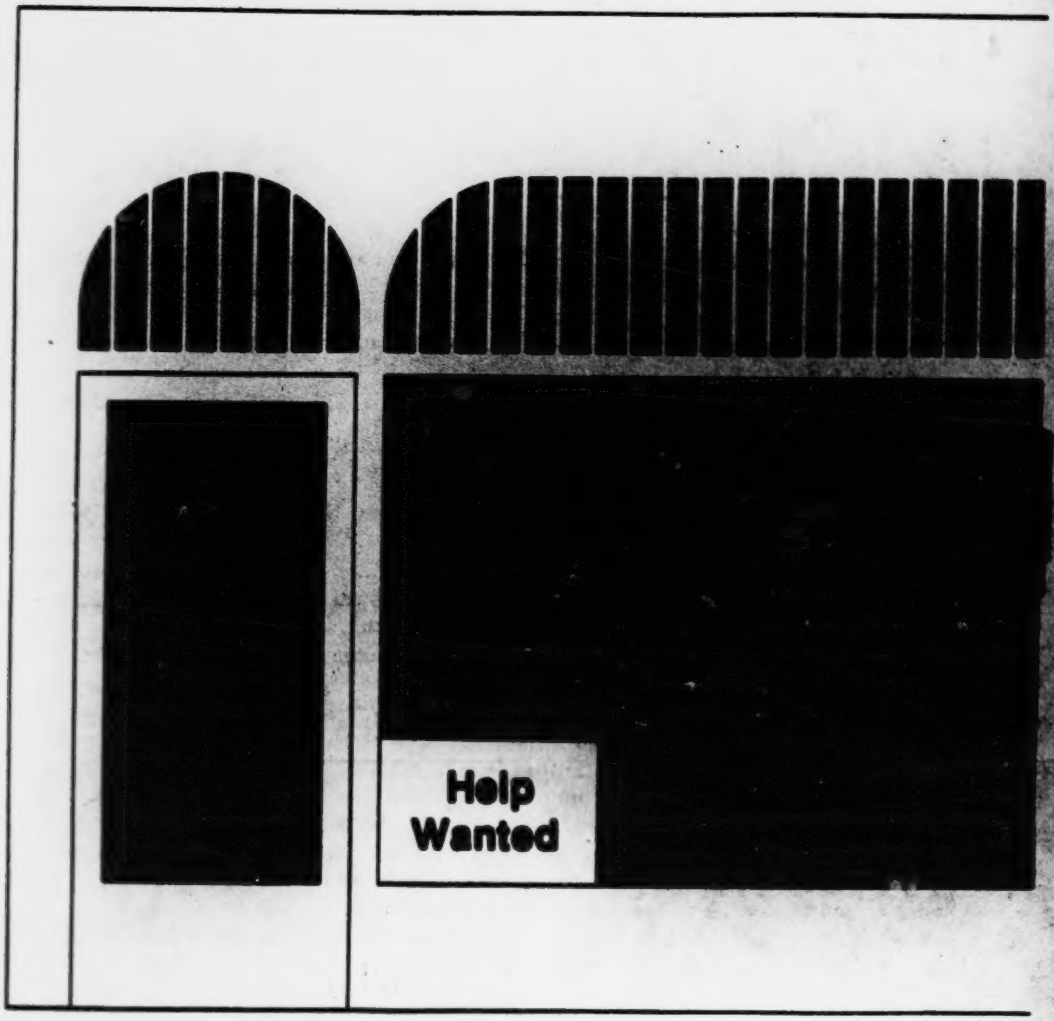

Summary

A business is only as good as the people in it. Therefore, to effectively manage your small store or shop, you must take the time to find and hire the right employees.

This Aid discusses the process of staffing a small retail business: setting personnel policies, determining what skill and abilities are needed, finding applicants, developing application forms, and interviewing prospective employees.

Staffing is of critical importance to businesses of all shapes and sizes. All firms take the same risk in hiring a new employee. However, the smaller the firm, the less it is able to afford the time and costs involved in hiring and then firing, the wrong employee.

Bigger companies have developed effective hiring techniques and procedures to lessen this risk. If you, the owner-manager of a small firm, are going to effectively manage your operation, you too must apply some of these staffing techniques.

Setting Personnel Policies

First of all, know yourself. Know what business you are in. Know your own personal abilities and weaknesses, and try to anticipate how you will deal with the situations that you expect to arise in the daily operation of your business.

Then, formulate your policies in writing. Include all matters that would affect employees, such as wages, promotions, vacations, time off, grievances, fringe benefits, and even retirement policies which are now available for the small retailer.

Employment and training procedures must be established so that you have a better chance of getting the job done the way you want it done. You might want to consider written policy decisions for the following areas.

Hours. Consider here the number of hours to be worked per week, the number of days per week, evening and holiday work, and the time and method of payment for both regular and overtime work. Unnecessary payment of overtime at premium rates is a source of needless expense. By planning ahead, you may be able to organize your employees' work to keep overtime to a minimum. When peak periods do occur, you can often handle them by using part-time help paid at regular rates.

Compensation. The bulk of the retail salesperson's earnings should come from a base salary competitive with the pay offered by other similar local firms. It may be possible to supplement the base salary with some form of incentive, such as a small commission or quota bonus plan. Try to relate the incentive to both your goals and the goals of your employees. Whatever plan you use, be sure each employee understands it completely.

Fringe Benefits. You may consider offering your employees discounts on merchandise, free life insurance, health insurance, pension plan, and tuition payments at schools and colleges. You might also look into joining with other merchants in a group disability plan and a group workers' compensation plan. Such a plan could mean a considerable savings in your premium costs.

Vacations. How long will vacations be? Will you specify the time of the year they may be taken? With or without pay?

Time Off. Will you allow employees time off for personal needs, emergencies in the family, holidays, special days such as election day, Saturday or Sunday holidays?

Training. You must make sure that each employee is given adequate training for the job. In a small store, the training responsibility normally falls to the owner-manager. But, if you have supervisors, each one should recognize the importance of being a good teacher and should schedule time to teach new people.

Retirement. What are your plans for retirement age benefits such as Social Security, pension plans, and annuity plan insurance?

Grievances. You may expect conflicts with your employees without regard for the quality of the employment you offer. The best course of action is to plan for them and establish a procedure for handling grievances. Consider the employee's rights to demand review, and establish provisions for third party arbitration.

Promotion. You will want to consider such promotion matters as normal increases of wages and salaries, changes of job titles, and the effect your store's growth will have on this area.

Personnel Review. Will you periodically review your employee's performance? If so, what factors will you consider? Will you make salary adjustments, training recommendations?

Termination. Even though this is a distasteful matter to many retailers, it would be wise to have a written policy on such matters as layoffs, seniority rights, severance pay, and the conditions warranting summary discharge.

When you have developed your personnel policies, write down the policy on all matters which affect your employees and give each one a copy. For the small store, this statement may only consist of one or two typed pages. Matters such as the following should be standardized and not left to the whim of a supervisor: hours of work, time recordkeeping, paid holidays, vacations, deportment and dress regulations, wage payment system, overtime, separation procedure, severance pay, pension and retirement plan, hospitalization and medical care benefits, and grievance procedure.

Determining Needed Skills and Abilities

The trick to getting the right person for the job is in deciding what kind of skill is needed to perform the job. Once you know what it takes to do the job, you can match the applicant's skills and experience to the job's requirements.

The first step in analyzing a job is to describe it. Suppose, as a busy owner-manager, you decide to hire someone to relieve you of some of your duties. Look at the many functions you perform and decide what your stronger and weaker areas are.

Further suppose that you have decided that you will need help in the office. The phone is always ringing. Letters which need answering are piling up. Merchandise must be ordered.

Once you have a job description on paper, decide what skills the person must have to fill the job. What is the lowest level of skill you will accept? In this example, let us assume that you decide initially to hire a secretary, but discover that secreataries are scarce and expensive. Moreover, in your area, stenographers are almost as hard to find and nearly as expensive as secretaries.

Perhaps you could get by with a typist. Hiring a typist may be both easier and cheaper than hiring a secretary or stenographer. Many high school students are well qualified as typists, and many are seeking part-time work.

One additional point: When you start to look for someone to fill your job, make sure you spell out just what you want. Imagine that an owner-manager advertised f— a "sales clerk." What should the applicant be able to do? Just tally sales receipts accurately? Keep a customer list and occasionally promote your products to these people? Run the store while you are away? The job of "sales clerk" means different things to different people. Make sure that you know what skills you need and what skills you can get by with, as determined by what kind of training you can give the employee.

Finding Applicants

When you know the kind of skills you need in your new employee, you are ready to contact sources which can help you recruit job applicants.

Each state has an employment service (sometimes called Public Employment, Unemployment Bureau, or Employment Security Agency). All are affiliated with the United States Employment Service, and local offices are ready to help businesses with their hiring problems.

The employment service will screen applicants for you by giving aptitude tests (if any are available for the skills you need). Passing scores indicate the applicant's ability to learn the work. So, be as specific as you can about the skills you want.

Private employment agencies will also help in recruitment. However, the employee or the employer must pay a fee to the private agency for its services.

Another source of applicants is a "Help Wanted" sign in your own front window. Of course, a lot of unqualified applicants may inquire about the job, and you cannot interview an applicant and wait on a customer at the same time.

Newspaper advertisements are another source of applicants. You reach a large group of job seekers and you can screen them at your convenience. If you list a phone number at the store, you may end up on the phone instead of dealing with a customer.

Job applicants are readily available from local schools. The local high school may have a distributive education department where the students work in your store part time while learning about selling and merchandising along with their school courses. Many part-time students stay with the store after they finish school.

You may also find job applicants by contacting friends, neighbors, customers, suppliers, present employees, local associations such as the Junior Chamber of Commerce, service clubs to which you belong, or even a nearby armed forces base where people are leaving the service. However, do not overlook the problems of such recruiting. What happens to the goodwill of these sources if they recommend a friend whom you do not hire, or if you have to fire the person they recommend?

Your choice of recruitment method depends on your type of business, your location, and you. You have many sources available to you. A combination may serve your needs best. The important thing is to find the right applicant with the correct skills for the job you want to fill, whatever the source.

Developing Applicants Forms

The hardest part of your work, if you did a good job listing the skills needed, is in finding and hiring the one right employee. You need some method of screening the applicants and selecting the best one for the position.

The application form is a tool which you can use to make your tasks of interviewing and selection easier. The form should have blank spaces for all the facts you need as a basis for judging the applicants. A sample form is provided below.

You will want a fairly complete application so you can get sufficient information. However, keep the form as simple as you can. The form may be mimeographed or ditto form.

Have the applicants fill out the application before you talk to them. It makes an excellent starting point for the interview. It is also a written record of experience and former employer's names and addresses.

Remember, the Civil Rights Act of 1964 prohibits discrimination in employment practices because of race, religion, sex, or national origin. Public Law 90-202 prohibits discrimination on the basis of age with respect to individuals who are at least 40 but less than 70. Federal laws also prohibit discrimination against the physically handicapped.

When an applicant has had work experience, other references are not very important. However, if the level of work experience is limited, additional references may be obtained from other individuals such as school counselors who can give objective information. Personal references are almost useless as an applicant would only list people who have a kind word for them.

Interviewing Job Applicants

The objective of the job interview is to find out as much information as you can about the job applicant's work background, especially work habits and skills. Your major task is to get the applicants to talk about themselves and about their work habits. The best way to go about this is to ask each applicant specific questions: What did you do on your last job? How did you do it? Why was it done?

As you go along, evaluate the applicants' replies. Do they know what they are talking about? Are they evasive or unskilled in the job tasks? Can they account for discrepancies?

When the interview is over, ask the applicant to check back with you later, if you think you may be interested in that applicant. Never commit yourself until you have interviewed all likely applicants. You want to be sure that you select the right applicant for the job.

Next, verify the information you have obtained. A previous employer is usually the best source. Sometimes, a previous employer will give out information over the telephone. But, it is usually best to request your information in writing and get a written reply.

To help insure a prompt reply, you should ask previous employers a few specific questions about the applicant which can be answered by a yes or no check, or with a very short answer. For example. How long did the employee work for you?_______ Was his or her work poor ________, average ________, or excellent ________? Why did the employee leave your employment?

After you have verified the information on all your applicants, you are ready to make your selection. The right employee can help you make money. The wrong employee will cost you much wasted time, materials, and may even drive away your customers.

Application for Employment

Name: ______________________________ Date: __________

Last First Middle

Present Address: ______________________________ Social Security No.: __________

Telephone Number: ______________________________ Driver's License No.: __________

Indicate Dates You Attended School:

Elementary From __________ to __________ High School From __________ to

__________ College from __________ to __________

Other (Specity Type and Dates) ______________________________

Can You Be Bonded? __________ If Yes, In What Job? ______________________________

Do You Have Any Physical Defects Which Preclude You From Performing Certain Kinds of Work? __________

__________ If Yes, Describe Each and Specify Work Limitations: ______________________________

____

List Below All Present and Past Employment, Beginning with Most Recent (include military service, if relevant):

Name & Address of Company	From Mo/Yr	To Mo/Yr	Name of Supervisor	Reason for Leaving	Weekly Salary	Describe the Work You Did

May we contact the employers listed above? __________ If not, indicate which ones you do not wish us to contact

____

Remarks: ______________________________

____

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Instructor's Final Checklist

DETERMINING PROCEDURES FOR HIRING AND DEVELOPING AN APPLICATION FORM

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

Note to Instructor: For a one-semester course, use the checklist statement(s) for Objective 1. For a one-year course, use the statement(s) for both objectives.

	Fully Accomplished	Not Accomplished	Not Applicable
Objective 1			
The student accurately defined job specification	☐	☐	☐
The student accurately defined job description	☐	☐	☐
The student accurately defined applicant recruitment	☐	☐	☐
The student accurately defined job application form	☐	☐	☐
Objective 2			
The student accurately listed ten items that would be useful on a small business job application form	☐	☐	☐

DEVELOPING AN EMPLOYEE MANUAL

OBJECTIVE

Without the use of resources, accurately list five topics to be included in an employee manual.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of an employee manual to employer/employee relations.

TEACHING STRATEGIES	RESOURCES
Have various examples of employee manuals (e.g., franchise operations, educational systems, government agencies, commercial companies) available for student review.	
Have students compare their student handbook and youth organization handbook to the employee manuals. Cite the similarities and differences.	
Have students compile a list of topics to include in a small business employee manual. Lead a discussion on the importance of each topic.	Information Sheet, "Possible Topics for an Employee Manual," p. 236.
Invite a business owner/operator to discuss utilization of an employee manual in the operation.	

SUGGESTED EVALUATION TECHNIQUE

Have students accurately list five topics to be included in an employee manual.

SUGGESTIONS TO STUDENT ORGANIZATION FOR RELATED ACTIVITIES

Develop chapter member and officer handbooks.

Invite local/area businesses to display their employee manuals at a chapter meeting.

INFORMATION SHEET
ENT-041

POSSIBLE TOPICS FOR AN EMPLOYEE MANUAL

1. Business description.

2. Business policies:

   a. break,
   b. discipline,
   c. holidays,
   d. promotion,
   e. safety and emergency,
   f. sick leave: with and without pay,
   g. training/retraining/crosstraining,
   h. vacation,
   i. work site.

3. Employee benefits.

4. Pay and schedule information.

5. Responsibilities of employees.

6. Rights of employees.

7. Topics particular to the business

Other topics may be added; one or more of the above may be deleted.

Instructor's Final Checklist

DEVELOPING AN EMPLOYEE MANUAL

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately listed five topics to be included in an employee manual	☐	☐	☐

DETERMINING TYPES OF EMPLOYEE TRAINING AND SELECTING METHODS OF TRAINING INSTRUCTION

OBJECTIVES

(1) Given three types of employee training, i.e., on-the-job, off-the-job, and internship, choose one and accurately list two advantages and two disadvantages of using it.

(2) Without the use of resources, accurately name three methods of instruction and accurately explain how each could be used in a training situation.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of employee training and selecting appropriate methods of training instruction.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students read materials on employee training.	Bittel, What Every Supervisor Should Know, pp. 262-277. Everard and Burrow, Business Principles and Management, pp. 419-421. Samson, et al., Retail Merchandising, pp. 180-185. Small Business Administration, "Checklist for Developing a Training Program." Spears and Vaden, Foodservice Organizations: A Managerial and Systems Approach, pp. 583-586.
Provide students with information on a three-step training program for employees: orientation, training and follow-up. Have students relate their personal experiences with each of the three steps when they were	Information Sheet, "Training Employees," p. 242.

trained for jobs. Have them answer such questions as: What methods of orientation were used? Which type of training, i.e., on-the-job, off-the-job, internship, was used most often? What follow-up methods were used? What areas of the school system use training programs and how are they managed?	
Invite an employee trainer or owner/operator of a business to discuss employee orientation, types of employee training, and employee follow-up. Have students practice doing orientation and employee follow-up. Have them use orientation and follow-up checklists to guide and evaluate their behavior.	Information Sheets, "Orientation Checklist," p. 243 and "Follow-Up Checklist," p. 244.
Lead students in a discussion on the advantages/disadvantages of the three types of employee training, i.e., on-the-job, off-the-job, and internship.	Information Sheet, "Advantages and Disadvantages of Three Types of Employee Training," p. 245.
Invite an employee trainer or owner/operator of a business to define retraining and crosstraining and discuss how training new employees differs from retraining/crosstraining experienced employees. Have the presenter discuss the factors that influence the types of training used with experienced employees.	
Objective 2	
Have students list the methods of instruction used within classroom situations (e.g., chalkboard, lecture, case study, role play). Assign one method to each student and have him/her demonstrate how it could be used when training an employee.	
Have students determine which training methods might be more appropriate for retraining/crosstraining experienced employees.	Samson, et al., Retail Merchandising, pp. 180-183.

SUGGESTED EVALUATION TECHNIQUES

(1) Have students accurately list two advantages and two disadvantages of on-the-job training, off-the-job training or internship training.

(2) Have students accurately name three methods of instruction and explain how each could be used in a training situation.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Video tape and show at an executive council meeting various instruction methods that would be appropriate for training new chapter officers.

TRAINING EMPLOYEES

The training of employees usually follows a three-step plan: orientation, training, and follow-up.

I. Orientation

  A. Introduction to the business.

  B. Information on policies, regulations, and job benefits.

  C. Discussion of the job requirements.

II. Training

  A. On-the-Job takes place at the workplace

    1. The employee learns by doing.

    2. The employee has an assigned person to offer assistance and support.

  B. Off-the-Job takes place away from the workplace.

    1. The employee learns through simulations.

    2. The employee learns through uses classroom methods of instruction.

  C. Internship uses a combination of on-the-job and off-the-job training.

    1. The employee learns by doing.

    2. The employee learns through classroom methods of instruction.

III. Follow-up

  A. Review of policies, regulations, and job benefits.

  B. Questions from both the employer and employee.

INFORMATION SHEET
ENT-042

ORIENTATION CHECKLIST

During employee orientation, did the employer:

______ 1. Pre-arrange for the employee to be met at a given place and a given time? Meet the employee and show him/her the way to the department?

______ 2. Welcome the new employee? Put the employee at ease? Show interest in him/her as a person? Start out slow and give the employee time to relax?

______ 3. In a quiet area, explain the purpose of the orientation?

______ 4. Go over any forms that the employee will need to sign? Explain what the forms are and the disposition of the forms once they are signed?

______ 5. Using an organizational chart, show the employee where he/she fits into the organization? Supply the name of the employee's immediate supervisor? Tell the employee who the other managers are and give them a brief description of their responsibilities?

______ 6. Explain the purpose and objectives of the department and present the employee with a typed copy?

______ 7. Introduce the employee to coworkers?

______ 8. Show the employee the work area and briefly define the job?

______ 9. Give the employee a tour of the department, including such areas as the breakroom, time clock area, cafeteria, restrooms, employee health nurse, and any other department this employee will deal with?

______ 10. Interpret the main departmental policies, rules, and regulations that the employee will need to know in order to do the job (time clock, meal and break times, uniform policy, parking facilities, telephone usage-message area, payday, pay rate, overtime, schedules, safety procedures, fire procedures). Give the employee a typed copy of these policies?

______ 11. Explain job duties to the employee, and give copies of the job description and work schedule to him/her?

______ 12. Demonstrate major job duties to the employee?

______ 13. Assign the new employee to another employee for planned observation and training? Check back periodically on the employee's progress?

Adapted from Puckett, R. P. "Dietetics: Making or Breaking the New Employee." Contemporary Administrator, October 15, 1982.

INFORMATION SHEET
ENT-042

FOLLOW-UP CHECKLIST

During the follow-up to employee orientation, did the employer:

______ 1. Review dress code?

______ 2. Review job description; check for problems?

______ 3. Explain performance evaluation procedures?

______ 4. Review all fringe benefits, sick leave, holidays, annual leave, education policy, seniority, leaves of absence, promotions, grievance procedure, appeals procedure, lay off, merit increases? (If possible, the employee has a copy of these policies and procedures.)

______ 5. Explain accident prevention procedures in case there is an injury?

______ 6. Review fire plan? Supply copy of procedures?

______ 7. Review disaster plan? Supply copy of procedures?

______ 8. Review any other policies or procedures discussed during the first week? Check to make sure the employee knew the rules and regulations?

______ 9. Review any other policies or procedures specific to the department that will assist the employee in his/her duties?

______ 10. Affirm that the employee has received and read personnel and departmental policies and procedures?

Adapted from Puckett, R. P. "Dietetics: Making or Breaking the New Employee." Contemporary Administrator, October 15, 1982.

INFORMATION SHEET
ENT-042

ADVANTAGES AND DISADVANTAGES OF THREE TYPES OF TRAINING

	ADVANTAGES	DISADVANTAGES
ON-THE-JOB	1. Employee is filling a needed position. 2. Employee is on-site. 3. Person assigned to assist is given an assignment of responsibility.	1. Production may slow due to untrained employee. 2. Workplace may be distracting to trainee. 3. Person assigned to assist may not train to standards.
OFF-THE-JOB	1. Employee will not be distracted by workplace. 2. Production rate at workplace remains constant. 3. Trainer may be more qualified. 4. Varied instruction methods may create keener interest in learning.	1. Employee does not gain feel for workplace. 2. Too many instruction methods may be confusing. 3. Employee may not learn well through simulation.
INTERNSHIP	1. Employee gains feel for the business and benefits from varied instruction methods. 2. Employee has opportunity to ease into position with aid of assistant. 3. Production rate at workplace remains nearly constant.	1. Employee may feel he/she is being shuttled from one place to another. 2. Employee may recognize differences in instruction method training procedures and assigned training assistant procedures. 3. Employee may learn better in one or the other type of training rather than the combination.

Instructor's Final Checklist

DETERMINING TYPES OF EMPLOYEE TRAINING AND SELECTING METHODS OF TRAINING INSTRUCTION

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

Note to Instructor: For a one-semester course, use the checklist statement(s) for Objective 1. For a one-year course, use the statement(s) for both objectives.

	Fully Accomplished	Not Accomplished	Not Applicable
Objective 1			
The student chose a type of employee training and accurately listed two advantages and two disadvantages of it	☐	☐	☐
Objective 2			
The student accurately named three methods of instruction	☐	☐	☐
The student accurately explained how each could be used in a training situation	☐	☐	☐

DETERMINING HIRING POLICIES AND INTERVIEWING PROSPECTIVE EMPLOYEES

OBJECTIVES

(1) Given three topic areas related to hiring (e.g., filling vacancies, employee probation, and employee evaluation), choose one and write a policy related to it in accordance with "Guidelines for Writing Policy Statements," (p. 249).

(2) Without the use of resources, accurately list six rules to follow when interviewing prospective employees.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of developing hiring policies and conducting effective interviews.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students read materials on employee hiring.	Everard and Burrow, Business Principles and Management, pp. 413-419. Samson, et al., Retail Merchandising, pp. 170-176. Spears and Vaden, Foodservice Organization: A Managerial and Systems Approach, pp. 568-572, 578-579.
Invite a personnel director or a business owner/operator to discuss hiring policies.	
Provide students with an information sheet on guidelines for writing policy statements.	Information Sheet, "Guidelines for Writing Policy Statements," p. 249.
Provide students with an example on nondiscrimination in hiring. Use the written policy guidelines, ENT-043, Objective 1, Strategy 3, to critique the example.	Information Sheet, "A Policy on Nondiscrimination in Hiring," p. 250.

Objective 2

Have students read materials on interviewing prospective employees.	Bassett, Practical Interviewing, pp. 9-21, 62-77. Bittel, What Every Supervisor Should Know, pp. 165-171. Heller, The Super Managers, pp. 51-57. Samson, et al., Retail Merchandising, pp. 176-177. Spears and Vaden, Foodservice Organizations: A Managerial and Systems Approach, pp. 572-573, 578.
Provide students with rules for effective interviewing. Discuss each rule with students.	Information Sheet, "Rules for Effective Interviewing," p. 251.
Provide students with sample interview questions and information on prohibited interview topics. Lead a discussion on why each topic cannot be addressed.	Information Sheets, "Sample Interview Questions," p. 252, and "What Questions Are You Forbidden to Ask a Job Applicant?" p. 253.
Invite a person familiar with interviewing procedures (e.g., personnel director, school principal, business owner/operator) to serve as a job applicant. Have students conduct job interviews on video tape. Play back the interviews. Have students discuss and evaluate each.	

SUGGESTED EVALUATION TECHNIQUES

(1) Provide students with three topic areas related to hiring (e.g., filling vacancies, employee probation, and employee evaluation). Have them choose one and write a policy related to it. (For sample policy statements on filling vacancies, employee probation, and employee evaluation, see p. 254.)

(2) Have students accurately list six rules to follow when interviewing prospective employees.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Conduct a chapter mock interview contest.

INFORMATION SHEET
ENT-043

GUIDELINES FOR WRITING POLICY STATEMENTS

A good policy has the following characteristics:

1. It should guide action toward the goals of the organization and be explained to all those to whom it applies.
2. It should be stated in understandable words and usually should be in writing.
3. It should prescribe limits and channels for future action.
4. It should be subject to change but generally remain stable.
5. It must be reasonably capable of being implemented.
6. It should allow for discretion and interpretation by those responsible for carrying it out.
7. It should be reviewed periodically.

Joseph L. Massie/John Douglas, MANAGING: A Contemporary Introduction, 4/e, 1985, p. 163. Adapted by permission of Prentice-Hall, Inc., Englewood Cliffs, New Jersey.

INFORMATION SHEET
ENT-043

A POLICY ON NONDISCRIMINATION IN HIRING

The firm policy of the (business) will be that applicants for employment and employees shall receive fair and equal treatment regardless of their race, age, color, religion, sex, national origin, political affiliation, belief, or handicapping condition. The policy not to discriminate includes, but is not limited to, help wanted advertising, recruiting, hiring, placement, upgrading, transfer, rates of pay, and termination. The (business) is dedicated to fulfilling all obligations as an Equal Opportunity Employer.

Taken from Mendel, Guidelines for Developing Head Start Personnel Policies and Procedures, p. 12.

INFORMATION SHEET
ENT-043

RULES FOR EFFECTIVE INTERVIEWING

1. Don't interview at the end of a tough day.
2. Be yourself.
3. Relax the applicant.
4. Treat the applicant as an equal.
5. Avoid loaded questions.
6. Concentrate closely on behavior.
7. Focus initially on less personal subjects.
8. Don't interview behind a desk.
9. Conduct interviews in private.
10. Define the information you want.
11. Maintain enough interview control to cover all areas.
12. Stress value/attitude questions--not factual ones.
13. Make no judgments. Don't agree or disagree.
14. Word your questions to get new opinions. Avoid those with "yes/no" answers.
15. Use pauses . . . "ummmm's" to encourage elaboration.
16. Compliment applicant as appropriate.
17. Ask permission to take notes--but take them unobtrusively.
18. Don't cut off applicant answers . . . but interrupt when necessary to pursue a key point.
19. Don't give the answers.
20. Show interest. Be a good listener.
21. Don't be afraid to show ignorance.
22. Use humor when it fits.
23. Use short questions.
24. Probe choice points.
25. Respond quickly and naturally.
26. Don't use panel interviews.
27. Ask industry questions.
28. Talk about problems.
29. Smile.
30. Base your interpretations on the obvious.
31. Confirm key observations several times during interview.
32. Some people say: look first for intellectual efficiency
    . . . look second for emotional maturity/stability
    . . . look third for human relations skill
    . . . look fourth for insight into self and others
    . . . finally, look for ability to organize/direct.
33. Look for what the applicant will bring to the job.
34. Look for enthusiasm.
35. Look for what the applicant has--not what he/she lacks.
36. Does the applicant ask questions about job satisfaction? He/she should.

Taken from Heller, The Super Managers, pp. 55-56.

SAMPLE INTERVIEW QUESTIONS

Opening Questions

What can I do for you today?
Good morning! Good afternoon!
Tell me a little about yourself.
Where did you hear about this job?

Experience, Skills, Work History

What kind of job are you looking for?
What jobs have you held?
Tell me about your past experiences.
How do you know you can handle this job?
What do you know about this job?
Do you have any experience?
Why should I hire you?
Why did you leave your last job?
Why do you want to work for our company?
Do you get along with people?

Training

Do you have any special training?
What machines can you operate?

Education

What is the last grade you completed?
Did you graduate from high school?
I see you never finished high school?
Do you plan any further schooling?

Health

Have ever had any serious illness?
Do you have any health problems?
Have you ever been hospitalized?
Are you taking any kind of medicine?
Do you have any limitations?

Family

Do you live alone? With parents?
Do you have any dependents? How many?
Do your children live with you?
Do you have child care arranged?

Transportation

What is your mode of transportation?
Do you have transportation to work?
How would you get to work?
Do you have a driver's license?

Hours

What hours are you wanting to work?
Full-time? Part-time?
Can you work any shift?
Do you like regular hours?
How about overtime?
Will you work weekends/evenings/nights?

Money

How much would you expect to be paid?
What are your salary expectations?

Miscellaneous

Do you have future plans?
Would your last employer give you a good recommendation?
Do you have any references?
Do you prefer working with others/alone?

Do you have any questions?

Gaither, Teaching People to Find Their Own Jobs, p. 28.

INFORMATION SHEET
ENT-043

WHAT QUESTIONS ARE YOU FORBIDDEN TO ASK A JOB APPLICANT?

The following topics may not be put in question form during a job applicant's interview.

1. Address.
2. Age.
3. Criminal Record.
4. Disability.
5. Marital Status.
6. National Origin.
7. Physical Capabilities.
8. Race or Color.
9. Religion.
10. Sex.

Adapted from Bittel, What Every Supervisor Should Know, p. 167. Reproduced with permission.

SUGGESTED EVALUATION TECHNIQUE
ENT-043

SAMPLE POLICY STATEMENTS RELATED TO HIRING

I. Filling Vacancies - Vacancies must be filled by persons who can present satisfactory evidence of his/her ability to adequately perform the job and meet the needs of the (organization).

II. Employee Probation - The probationary period shall be an integral part of the examination and selection process and shall be used by the supervisor to observe closely the employee's work, to train and aid the employee in adjusting to the position ...., and to recommend (termination) of any employee whose performance fails to meet the required work standards.

III. Employee Evaluation - Supervisors should observe employee performance on an on-going basis . . . . Formal evaluations must be performed annually for all employees ... The performance evaluation should be based on a written job description.

Taken from Mendel, *Guidelines for Developing Head Start Personnel Policies and Procedures*, pp. 1, 6, 11.

Instructor's Final Checklist

DETERMINING HIRING POLICIES AND INTERVIEWING PROSPECTIVE EMPLOYEES

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

Note to Instructor: For a one-semester course, use the checklist statement(s) for Objective 1. For a one-year course, use the statement(s) for both objectives.

Objective 1

The student chose a topic related to hiring and wrote a policy related to it. The policy:

	Fully Accomplished	Not Accomplished	Not Applicable
a. Guided action toward the goals of the organization	☐	☐	☐
b. Was stated in understandable words	☐	☐	☐
c. Prescribed limits and channels for further action	☐	☐	☐
d. Is reasonably capable of being implemented	☐	☐	☐

Objective 2

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately listed six rules to follow when interviewing prospective employees	☐	☐	☐

WRITING POLICY PROCEDURE

OBJECTIVE

Given a policy statement (ENT-043, Evaluation Technique 1, p. 248), write an appropriate procedure in accordance with "Guidelines for Writing Policy Procedures" (p. 258).

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of well-developed policy procedure.

TEACHING STRATEGIES	RESOURCES
Have students write the procedure for a simple task (e.g., writing a business letter, planting corn, baking a cake). Discuss with students the repercussions if the steps are not in a logical order or if one or more steps are omitted.	
Explain a policy procedure and provide students with guidelines for writing procedure. Share examples of the school systems policy and procedure handbook.	Information Sheet, "Guidelines for Writing Policy Procedure," p. 258.
Using a policy statement on retraining/crosstraining (p. 259, Section 1), have each student write a procedure to follow to implement the policy. Ask students how policy and procedure are related.	Information Sheet, "Policy and Procedure for Employee Retraining/Crosstraining," p. 259, Section 2.

SUGGESTED EVALUATION TECHNIQUE

Provide the students with a policy statement. Have them write an appropriate procedure in accordance with the "Guidelines for Writing Policy Procedure" (p. 258).

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Have each chapter officer and community chairperson write the procedure for implementing his/her assigned duties.

INFORMATION SHEET
ENT-044

GUIDELINES FOR WRITING POLICY PROCEDURE

Policy procedure must:

1. Include the appropriate steps for implementing the policy.
2. Be organized in a logical and systematic order.
3. Be stated in clear and direct terms.
4. Relate only to the policy for which it is written.

INFORMATION SHEET
ENT-044

POLICY AND PROCEDURE FOR EMPLOYEE RETRAINING/CROSSTRAINING

1. Policy

An employee who meets the minimum standards of his/her current work position may be eligible for retraining/crosstraining when the employee expresses an interest in retraining/crosstraining and/or when the supervisor determines a need for retraining/crosstraining.

2. Procedure

a. The employee expresses a desire to retrain/crosstrain for a work position and/or the supervisor determines a need for an employee to retrain/crosstrain.

b. If the employee expresses a desire to retrain/crosstrain, he/she fills out a written request to retrain/crosstrain. Requisition forms are available from the business office. The completed form is returned to the business office.

c. If the supervisor determines a need for an employee to retrain/crosstrain, he/she meets with the employee to discuss retraining/crosstraining. If the retraining/crosstraining is agreed upon, a requisition form is filed with the business office. The form is supplied to the employee by the supervisor.

Instructor's Final Checklist

WRITING POLICY PROCEDURES

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

The student wrote an appropriate procedure for implementing a policy statement. The procedure:

	Fully Accomplished	Not Accomplished	Not Applicable
a. Included the appropriate steps for implementing the policy	[ ]	[ ]	[ ]
b. Was organized in a logical and systematic order	[ ]	[ ]	[ ]
c. Was stated in clear and direct terms	[ ]	[ ]	[ ]
d. Related only to the policy for which it was written	[ ]	[ ]	[ ]

WRITING JOB DESCRIPTIONS

OBJECTIVE

Without the use of resources, write a complete job description that includes the job title, the purposes of the job, a list of duties and responsibilities, and the employee's relationship with others in the workplace.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of being able to accurately describe each job in a business operation.

TEACHING STRATEGIES	RESOURCES
Have students read materials on job descriptions.	Bittel, *What Every Supervisor Should Know*, pp. 230-231. Massie and Douglas, *Managing: A Contemporary Introduction*, pp. 301-302. Spears and Vaden, *Foodservice Organizations: A Managerial and Systems Approach*, pp. 475-477.
Share and discuss with students examples of written job descriptions from local/area businesses and institutions (e.g., hospitals, school systems, franchise operations, manufacturing plants). Ask questions such as: What information is included in a written job description? Why is it important to write a complete job description? Who would be the most appropriate person to write a job description? What are the repercussions when individuals do not carry out their job descriptions?	
Have students read and discuss job descriptions for jobs in which they are interested from the U.S. Department of Labor's *Occupational*	Information Sheet, "Criteria for a Complete Job Description," p. 263.

Outlook Handbook or the Dictionary of Occupational Titles. Have them compare these job descriptions with criteria for complete job descriptions.

Provide students with an example of a written job description for a store buyer (p. 238). Guide students in making the description more complete.

Information Sheet, "Making a Sample Written Job Description More Complete," p. 264.

SUGGESTED EVALUATION TECHNIQUE

Have students write a complete job description for a job with which they are familiar. The description should include the job title, the purposes of the job, a list of job duties and responsibilities, and the employee's relationship with others in the workplace.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Have current chapter officers write their job descriptions. Use them during officer elections and to orient new officers.

SUGGESTED EVALUATION TECHNIQUE
ENT-045

CRITERIA FOR A COMPLETE JOB DESCRIPTION

Any job title needs a complete description of the duties to be performed. The following is a list of information which may be included in a job description.

1. Job title.
2. Purposes of the job.
3. List of duties and responsibilities.
4. Relationships with others.

Joseph L. Massie/John Douglas, MANAGING: A Contemporary Introduction, 4/e, 1985, p. 163. Adapted by permission of Prentice-Hall, Inc., Englewood Cliffs, New Jersey.

INFORMATION SHEET
ENT-045

MAKING A SAMPLE WRITTEN JOB DESCRIPTION MORE COMPLETE

A written job description for a store buyer might be: "purchases, receives, stores, and inventories purchases."

Additional information to make description more complete:

1. Determines what items are needed by the business.
2. Maintains an accurate and adequate inventory.
3. Negotiates with suppliers.
4. Keeps up with new market items.
5. Is fair with suppliers.
6. Educates the suppliers as to the wants and needs of the store.
7. Disposes of excess and useable/unusable items.
8. Develops/uses in-house report forms.
9. Organizes and administers the buying plan.
10. Involves him/herself in self-improvement activities.
11. Reports to manager on weekly basis.

Adapted from Stefanelli, Purchasing: Selection and Procurement for the Hospitality Industry, pp. 40-45.

Instructor's Final Checklist

WRITING JOB DESCRIPTIONS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.	Fully Accomplished	Not Accomplished	Not Applicable
The student wrote a job description which included:			
a. Job title	☐	☐	☐
b. Purposes of the job	☐	☐	☐
c. List of job duties and responsibilities	☐	☐	☐
d. Employee's relationship with others in the workplace	☐	☐	☐

Instructor's Guide Sheet ENT-046

KNOWING EMPLOYEE RIGHTS AND RESPONSIBILITIES

OBJECTIVE

Without the use of references, accurately define employee rights and employee responsibilities. Accurately list four examples of employee rights and six examples of employee responsibilities.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate knowing that employees have basic rights and responsibilities.

TEACHING STRATEGIES	RESOURCES
Have students define rights and responsibilities.	Information Sheet, "Rights and Responsibilities," p. 269.
Have students list their rights and responsibilities as students, American citizens, and community leaders.	
Invite an employee to discuss the rights he/she has as a member of a business operation.	
Invite a representative from the United States Department of Labor to explain employee rights.	
Provide students with information on the ways laws protect certain employee rights. Lead a discussion on the rationale for such laws. Invite representative from the various regulatory agencies (e.g., Social Security, Kentucky Labor Cabinet) to discuss their agencies and answer questions.	Brown and Warren, Economics of Our Free Enterprise System, pp. 165-166, 284-285. Information Sheet, "Rights Protected by Laws," p. 270.
Have students list characteristics of responsible employees. Provide students with a handout listing examples of responsible employee behavior. Have students compare and discuss two lists.	Information Sheet, "Responsible Employee Behavior," p. 271.

Have students complete an activity on employer expectations. Discuss the ratings of each expectation with students.	Activity Sheet, "Employee Expectations," pp. 272-273..

SUGGESTED EVALUATION TECHNIQUE

Have students accurately define employee rights and responsibilities. Have them accurately list four examples of employee rights and six examples of employee responsibilities.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Invite a member of the Small Business Administration or an attorney to present a chapter program on the legal rights and responsibilities of small business employees.

INFORMATION SHEET
ENT-046

RIGHTS AND RESPONSIBILITIES

A right as defined in Webster's New Collegiate Dictionary is "qualities (in adherence to duty or obedience to lawful authority) that together constitute the ideal of moral propriety or merit moral approval," ... "something to which one has a just claim," ... "the power or privilege to which one is justly entitled."

Webster defines **responsibility** as "... moral, legal, or mental accountability" and/or "reliability, trustwortheness."

INFORMATION SHEET
ENT-046

RIGHTS PROTECTED BY LAW

1. Freedom from health and safety hazards while on the job. (Occupational Safety and Health Act)

2. Assurance of benefits at retirement age. (Social Security Act)

3. Assurance of funds if unemployed through no fault of the employee. (Social Security Act, State Unemployment Insurance Programs)

4. Protection against unfair labor practices. (United States Department of Labor, Wage and Hour Act)

5. Protection against wage discrimination on the basis of sex. (Equal Pay Act)

6. Protection against employment discrimination related to race, color, religion, sex, or national origin. (Civil Rights Act)

7. Protection against employment discrimination related to pregnancy, childbirth, or related medical conditions. (Civil Rights Act Amendment)

8. Protection against employmentt discrimination for persons between the ages of 40 and 70. (Age Discrimination and Employment Act Amendment)

9. Protection against employment discrimination related to hiring of the handicapped. (Federal Rehabilitation Act)

INFORMATION SHEET
ENT-046

RESPONSIBLE EMPLOYEE BEHAVIOR

A responsible employee...

1. tries to do his/her best.
2. works for all of his/her pay.
3. tries to learn something new at every opportunity.
4. follows all of the company policies and procedures.
5. gets along with other workers and supervisors.
7. is neat and careful around equipment and machines.
8. is friendly but business minded while on the job.
9. rarely complains, and then only to the immediate supervisor.
10. is not a clock watcher and works until the task is completed.
11. asks for more money after he/she can handle higher levels of responsibility.
12. asks for advancement only when he/she can prove he/she can handle higher levels of responsibilitycan be handled.
13. is willing to admit mistakes and works toward correcting them.
14. does not try to seek sympathy from other workers or instigate problems.
15. leaves all family problems at home or seeks aid from his/her supervisor if work may be affected by the issue.

Adapted from JISR Works, Description of a Good Employee.

ACTIVITY SHEET
ENT-046

EMPLOYER EXPECTATIONS

Directions: Listed below are 23 employee work habits. Rate each as if you were the employer.

IMPORTANCE TO AN EMPLOYER				WORK HABITS
Required	Important	Helpful	Not Necessary	
1	2	3	4	Reports to work regularly and on time.
1	2	3	4	Is dependable; does what is expected.
1	2	3	4	Follows rules and instructions.
1	2	3	4	Is loyal to employer.
1	2	3	4	Works well with others; is sociable and cooperative.
1	2	3	4	Does nice work; performs quality work.
1	2	3	4	Gets the job done; meets quantity demands.
1	2	3	4	Dresses appropriately; has a neat appearance.
1	2	3	4	Practices safety on the job.
1	2	3	4	Performs consistently.
1	2	3	4	Has a positive attitude toward work.
1	2	3	4	Accepts advice.
1	2	3	4	Meets physical requirements of the job (strength, endurance, coordination).
1	2	3	4	Is able to learn the job.
1	2	3	4	Does neat and careful work.
1	2	3	4	Tolerates repetitive work.
1	2	3	4	Knows how to do the job adequately.

IMPORTANCE TO AN EMPLOYER				WORK HABITS
Required	Important	Helpful	Not Necessary	
1	2	3	4	Is honest and truthful.
1	2	3	4	Serves customers well; respects and appreciates them.
1	2	3	4	Does not let personal problems interfere with work.
1	2	3	4	Communicates effectively.
1	2	3	4	Is able to hustle; functions well under pressure.
1	2	3	4	Requires little supervision; has initiative.

Adapted from West Virginia Department of Education, Access: A Life Skills Program, Level III, S-14, "Aware of the Expectations of Others," pp. 2-3.

Instructor's Final Checklist

KNOWING EMPLOYEE RIGHTS AND RESPONSIBILITIES

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately defined employee rights	☐	☐	☐
The student accurately defined employee responsibilities . .	☐	☐	☐
The student accurately listed four examples of employee rights	☐	☐	☐
The student accurately listed six examples of employee responsibilities	☐	☐	☐

Instructor's Guide Sheet ENT-047

DETERMINING BENEFITS OF ORGANIZATION MEMBERSHIP

OBJECTIVE

Without the use of resources, accurately list five benefits of organization membership to an entrepreneur.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the benefits of organization membership to an entrepreneur.

TEACHING STRATEGIES	RESOURCES
Have students list the organizations to which they belong and the reasons for belonging to each. Lead a class discussion on reasons for belonging to student organizations.	Binkley and Byers, Handbook on Student Organizations in Vocational Education, pp. 1-10.
Invite an officer of a local/area civic organization to discuss the benefits of being involved in the community.	
Invite an officer of the school's teacher organization/association to discuss the benefits of belonging to a professional organization.	
Provide students with information on services provided to small business by organizations. Lead a discussion on how organization membership benefits the individual, small business, and the community.	Information Sheet, "Association Services for Small Business," pp. 277-282.
Have students interview small business owners/operators to determine the organizations to which they belong. Have them ask questions such as: Why did you join the organization(s)? What benefits do you receive from the organization(s)? What other organizations do you plan to join?	

SUGGESTED EVALUATION TECHNIQUE

Have students accurately list five benefits of organization membership to an entrepreneur.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Organize and conduct a chapter membership campaign that emphasizes the benefits of organization membership.

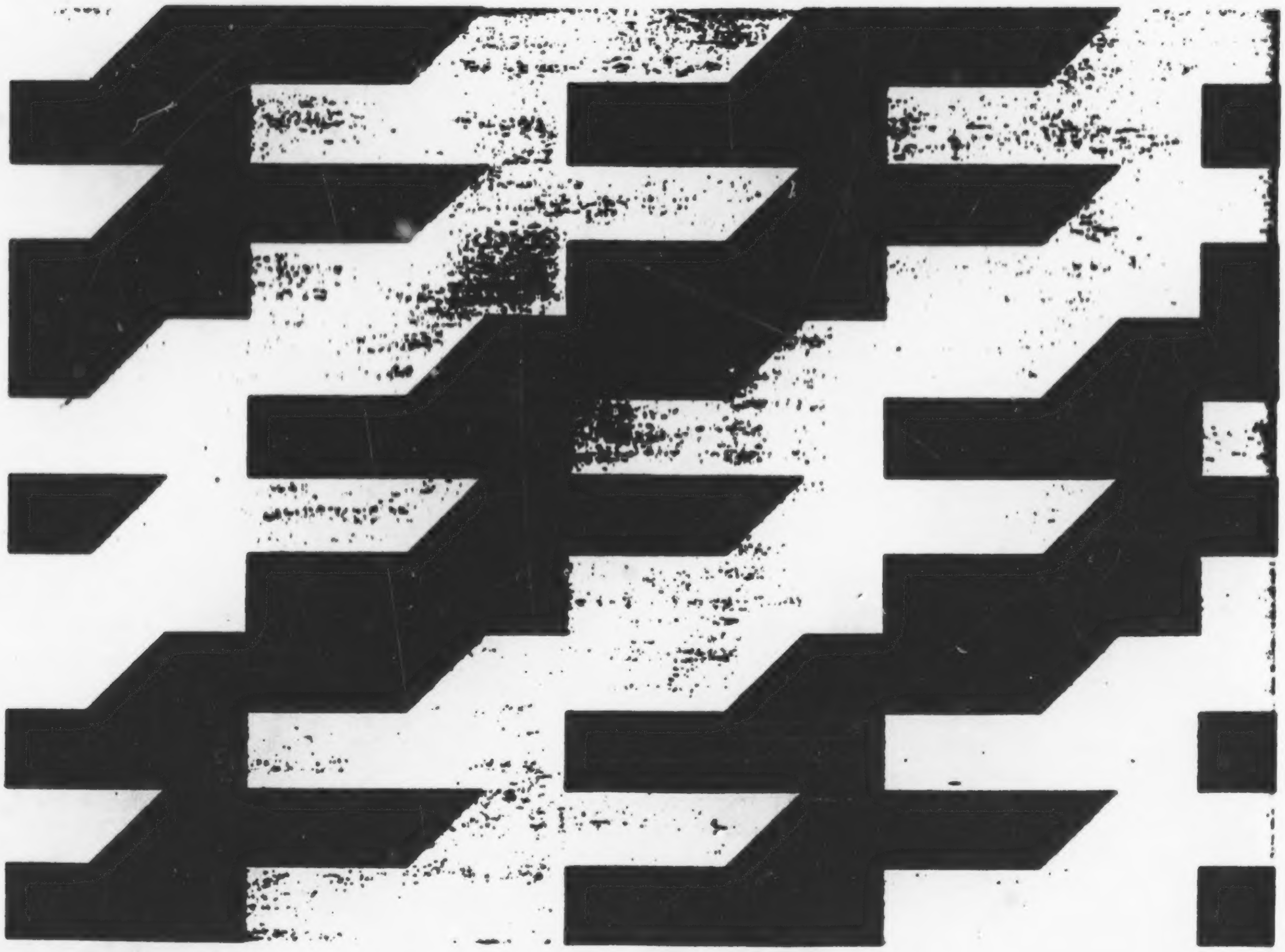
U.S. Small Business Administration
Management Assistance
Support Services

Management Aids
Number 7.002

SBA

Association Services for Small Business

By James P. Low, President
American Society of
Association Executives
Washington, D.C.



Summary

Most owner-managers of a small company have discovered the usefulness of membership in a trade association or professional society that represents their industry. Many associations offer technical help and expert guidance in such areas as research, marketing, management, finance, labor relations, government regulations, public relations, and problem-solving in general.

This *Aid* discusses associations in general and represents a composite view of their functions to acquaint owner-managers of small business with their objectives.

Some owner-managers of small business firms do not fully realize how much help they can get from an association that represents their industry. Every business firm needs technical help and expert guidance in such things as research, sales promotion, management, finance, labor relations, government relations, public relations, and problem-solving in general.

Older Than Nation Itself

The association movement is older than the Nation itself—in fact, much older. Trade associations in one form or another can be traced back to ancient Egypt and China.

In the United States today, nearly every industry, every business, every profession is represented by its own voluntary membership association. The purpose of the association is to advance the best interests of its members. In doing so, it also works to strengthen the economy and to preserve the incentive system and individual free enterprise.

Activities of Associations

The American Society of Association Executives recently conducted a nationwide survey of association executives to determine the nature and scope of association activities. The findings of the survey show that associations, on a varying basis, provide a number of services to their members. These services are particularly important to the small business owner-manager in helping him or her solve business problems, meet the competition, make increasing sales, and take advantage of business opportunities.

Accounting Services

The principal purpose of small business is to earn a profit! This means that you must have a budget and operate within that budget. The key is to have an adequate accounting system which shows at all times what the costs of doing business actually are. The system should make readily available all the information you need to keep costs under control.

Here are some of the things that, generally speaking, associations do for their members to help them solve their accounting problems:

Provide accounting manuals.

Publish comparative statements, ratios.

Publish uniform account classifications and definitions.

Conduct cost studies.

Provide accounting forms.

Maintain an accounting committee for industry.

Provide consultation to install and maintain accounting system.

Provide centralized accounting services.

Advertising and Marketing Services

In order to earn a profit in business, the owner-managers of small companies not only have to keep costs under control but also make sure they get their full share of the market and keep their sales increasing.

Here are some of the things that, generally speaking, associations do for their members to help them solve their advertising and promotion problems and to gain more customers:

Provide members with advertising materials.

Sponsor paid advertising for industry.

Engage in mutual theme advertising with members.

Exhibit in shows of other associations.

Collect and distribute requests for products or services of members.

Forecast future demands and trends.

Conduct consumer research for facts regarding buying or selling of products or services.

Provide members with point-of-purchase materials.

Conduct studies or provide methods of merchandising.

Aid to the Disadvantaged

Every small business owes part of its success to its civic spirit—its willingness to contribute to the well-being of society. Although an indirect path to growth in business, in the long run the goodwill created is a contributing factor and one that brings satisfaction as well as support to the small business.

Here are some of the things associations are doing today to help others in one area of public service—aid to the disadvantaged:

Encourage members to hire the disadvantaged.

Help members understand on-the-job training.

Study opportunities for employment within industry.

Work with Federal and State government for expanded apprentice training.

Encourage minority-group entrepreneur programs.

Operate a placement service for the disadvantaged.

Consumerism

An area of growing concern to the owner-manager of a small business today is being sure what product will please the consumer. Consumerism is important to you because it can affect your profits as well as your business reputation.

Here are some of the things that, in increasing measure, associations do for their members to help them do their part to protect the consumer:

Publish a code of ethics which includes requirements for consumer protection.

Encourage the public to report to the association about unsatisfactory products or services.

Encourage members to adhere to truthful and factual advertising.

Work with State agencies on licensing procedures.

Conduct educational programs to inform the public about what industry is doing to protect users.

Sponsor an accreditation program or certification program of members.

Ecology and Environmental Programs

In the eyes of the public today, all business—large and small—has increasing responsibility for protecting the environment. When a company is recognized as one that seeks to protect and not to damage the environment, it will gain in public goodwill—a valuable asset to the business.

Here are some of the things associations do to try and help their members protect the environment:

Work for legislation that sets standards for environmental control.

Maintain a committee to study ways to reduce pollution or to improve environmental quality.

Work for legislation that provides incentives to industry for improved environmental control.

Conduct research to improve methods of waste disposal and to eliminate pollution.

Sponsor programs to encourage clean-up or package-return campaigns.

Education

The small business owner-manager stands to gain both directly and indirectly from the educational programs of a trade association or professional society.

Here are some of the things that associations do for their members—and on behalf of their members—to promote and encourage continuing education for business people and others:

Sponsor short courses, clinics, seminars, workshops, or institutes for industry.

Provide certificates, diplomas, and awards for completion of educational programs.

Provide tests and manuals for employee training.

Provide films and cassettes for training programs.

Cooperate with distributive education programs.

Provide scholarships.

Underwrite fellowships or grants.

Employer-Employee Relations

Good relations with employees contribute to greater productivity on their part. And greater productivity, of course, improves the business profit picture. So, obviously, good relations with your employees are important.

Here are some of the things that associations do for their members—and on behalf of their members—to bring about better employer-employee relations:

Conduct surveys concerning members' employees—wages, work schedules, fringe benefits.

Disseminate information on State and national labor relations.

Hold meetings to discuss employee-employer relations.

Conduct programs aimed at better health and safety of members' employees.

Provide career manuals to schools.

Conduct personal policy surveys.

Provide medium of exchange for members' labor contracts.

Operate executive referral or personnel placement service.

Provide information on job evaluation plans, incentives, and aptitude tests.

Government Relations

Developments in business influence the course of government. Developments in government, in turn, affect the atmosphere in which business operates. It is, therefore, of great importance to the owner-manager of a business to know what is happening in government, as well as what is being planned and proposed. You can help make sure that informed views on current issues are expressed to government and heard by government.

Here are some of the things that associations do for their members to help them in government relations:

Cooperate with interested government agencies and government officials in the solution of problems affecting industry and the economy, along with the well-being of the public.

Inform members about Federal legislative developments.

Equip and encourage members to express personal and knowledgeable views on legislative issues to their congressmen.

Inform members about Federal administrative actions or rulings.

Inform members about State and local legislative developments.

Testify before Congress or State legislatures.

Maintain a legislative committee to study legislative issues and make recommendations.

Assist State government by providing facts and statistics.

Draft legislation or model laws.

Assist Federal Government by providing facts pertaining to production, capacity, and inventories of industry.

Report Federal court decisions to members.

Train and encourage members to be more active in the political party of their choice.

Publishing

Here are some of the things that associations do for their members (1) to keep them well informed about the technical and other changes taking place in their industry and (2) to bring them the news about important people in the industry:

Publish legislative, technical, and other bulletins as news dictates.

Publish membership directories.

Publish handbooks, manuals, and the like.

Publish magazines, trade journals, or newsletters.

Publish digests of laws.

Publish directories of suppliers, buyers.

Publicity and Public Relations

Here are some of the things that associations do for their members to create greater goodwill for the particular industry and greater consumer acceptance of the industry's products and services:

Provide mass media with stories of interest and news releases concerning industry.

Provide industry and trade journals with information about developments in industry and services of industry.

Maintain a public relations committee.

Provide members with news stories which they can use in their own community.

Provide speeches which members can use in their own community.

Provide members with public relations films.

Research, Standardization, Statistics

Here are some of the things that associations do for their members in the areas of research, standardization, and statistics to provide them with needed and dependable information. Such information can help them improve the quality and performance of their products along with the efficiency and profit-making potentials of their business:

Conduct studies designed to improve products or services of members.

Conduct studies to develop new methods and techniques.

Conduct research on management and personnel performance.

Conduct research to develop new products or services.

Cooperate with governmental agencies to review and improve standards and specifications.

Publish product standards and specifications.

Study standard types, sizes, grades.

Study standard dimensional and other tolerances and nomenclature.

Develop standard operational procedures for office and plant.

Establish criteria on properties and performance for use in grading, approving, certifying.

Disseminate statistical data compiled by governmental agencies.

Prepare long-term and short-term forecasts.

Regularly compile and disseminate statistics reflecting such things as orders, sales, production, construction, inventories, employment, operating ratios, profits.

Overall Scope of Services

The above discussion shows many of the different services of major importance which today's trade associations and professional societies of this country make available to their members.

Of course, not every association provides every one of these services to its members. This is a composite picture of associations as a whole.

The main point is that the association in your field of business offers you many valuable services which are of particular help to you as a small business manager. You may obtain them at a very reasonable cost through payment of membership dues and by participating in the work of your association.

Cost to You

Naturally, one of the chief aspects of interest to the owner-manager of a small company is how much it costs to belong to an association. Dues vary according to the group and the amount of services it offers. Generally, dues are a fraction of 1 percent of the member's annual volume of business. Some associations charge a uniform fee. A few use a combination figure

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derived from the rate based on volume plus a specific, flat charge. Many groups also have a ceiling on the dues they charge.

Among State and national associations, annual assessment of dues is the most common method. Local associations often assess dues by the month instead of annually or semi-annually.

Considering the services available, the forward-looking small business owner-manager will regard association dues not as an expense but as a form of investment toward improving the company.

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Instructor's Final Checklist

DETERMINING THE BENEFITS OF ORGANIZATION MEMBERSHIP

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately listed five benefits of organization membership to an entrepreneur	[ ]	[ ]	[ ]

DEVELOPING TIME MANAGEMENT SKILLS

OBJECTIVE

Without the use of resources, accurately list three ways of improving time management.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of effective time management.

TEACHING STRATEGIES	RESOURCES
Have copies of a time management resource book available for student use.	Lakein, How to Get Control of Your Time and Your Life.
Have students complete activities to help them develop time management skills.	Activity Sheet Packet, "Making Effective Use of Time," pp. 286-299.
Have a small business owner/operator discuss the benefits of developing and using time management skills.	

SUGGESTED EVALUATION TECHNIQUE

Have students accurately list three ways of improving time management.

SUGGESTIONS TO STUDENT ORGANIZATION FOR RELATED ACTIVITIES

Encourage chapter members to participate in chapter activities that develop time management skills (e.g., extended learning activities, degree activities, competitive events/contests).

Report on various methods of improving time management skills from a time management resource (e.g., Lakein, How to Get Control of Your Time and Your Life).

ACTIVITY PACKET
ENT-048

MAKING EFFECTIVE USE OF TIME

Lesson 1

Planning a Daily Timetable

Lesson 2

Planning a Weekly Timetable

Lesson 3

Keeping Schedules and Meeting Deadlines

Adapted from Access: A Life Skills Curriculum, Level II: S-7.

LESSON 1: PLANNING A DAILY TIMETABLE

Activity 1: Explain to students that it is important that a person learns to plan his/her day. If a day is not planned, a person may find that he/she is unable to get important tasks accomplished.

Activity 2: See Student Worksheet: Each Day, p. 260. Have students, for one full week, make a list of the major activities they do each day.

Activity 3: See Student Worksheet: Ten Activities, p. 261. Have students look at the worksheet of daily activities from Activity 2 and ask them to write down the approximate amounts of time it takes to do each activity. Also, have them write the time of day they do the activity, i.e., morning, afternoon, night.

Activity 4: After students have determined the typical activities for a week, have them plan a schedule for one day. Have them use the following procedure:

1. Make a list of everything you think you will have to do tomorrow.
2. Next to each activity, write the amount of time you think the activity will take.
3. Put the time of day you will need to do the activity. If you have an appointment, write the exact time.

Activity 5: Check each student's schedule. Explain the importance of having a balance of activities. See if everyone has some recreation planned. Show students that they must use other schedules such as television or bus schedules in order to plan their own.

Activity 6: See Student Worksheet: Wish Schedule, p. 262. Help students plan a wish schedule. Discuss the idea that a wish schedule should be incorporated into a daily schedule when possible to make days more exciting and interesting and to help set goals.

Activity 7: Encourage students to continue planning daily schedules until they become proficient.

STUDENT WORKSHEET

EACH DAY

DIRECTIONS: Use this worksheet to write the most important things you do each day this week. The list below may help you.

MONDAY	TUESDAY	WEDNESDAY

THURSDAY	FRIDAY	SATURDAY

SUNDAY

____

____

____

____

____

Examples:
- Sleep
- Go to school
- Play a sport
- Go to a movie or game
- Visit a friend
- Get ready for school or work
- Watch television
- Do homework

STUDENT WORKSHEET

TEN ACTIVITIES

DIRECTIONS: Write 10 activities you might do during the morning, afternoon, or night. Write when it is done, and the amount of time you think it might take to do it. Use the times below to help you.

THINGS I DO IN THE MORNING, AFTERNOON, OR NIGHT

ACTIVITY	WHEN ACTIVITY IS DONE	HOW MUCH TIME IT TAKES
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		

all day

about an hour

two hours

all morning

all afternoon

a few minutes

all night

3 or 4 hours

30 minutes

10-15 minutes

STUDENT WORKSHEET

WISH SCHEDULE

DIRECTIONS: Make a list of things you wish you could do. Use your list and make a daily schedule. Show how you would spend your day if you could do anything you want.

THINGS I WOULD LIKE TO DO:

A WISH DAY:

MORNING ACTIVITIES	AFTERNOON ACTIVITIES	NIGHT ACTIVITIES

LESSON 2: MAKING EFFECTIVE USE OF TIME

Activity 1: Explain to students that it is important for a person to plan his/her week. If the week is not planned, a person may find that he/she is unable to meet commitments. Also, a person may not be able to get important tasks accomplished.

Activity 2: See Student Worksheet: How Many Times, p. 264. Use the worksheet to help students identify the number of times per week typical activities are done.

Activity 3: See Student Worksheet: Next Week, p. 265. Have students write all the fixed activities that they know will occur in the coming week. Use examples of such tasks as going to school and going to a doctor's appointment.

Activity 4: See Student Worksheet: Next Week's Schedule, p. 266. Use the worksheet in connection with the work done in Activity 3. Help students plan a schedule for one week.

Activity 5: After students have planned their weekly schedules, have them use the following checklist to see if their week is balanced.

_____ I made time for recreational activities.
_____ I put in things I know I have to do.
_____ I made time to spend with family and friends.
_____ I made time just for me.

Activity 6: Discuss with students that schedules can and should be changed when necessary. Put the following examples on the board and talk about whether each situation warrants changing a weekly schedule.

- Someone in your family became ill.

- A school meeting you always attend was moved to the same night you are supposed to babysit for your neighbor.

- You found out there was a one-day sale at the department store and you need new clothes.

Have the students give other examples of times when they should/should not change a preplanned schedule.

Activity 7: See Student Worksheet: Schedule Change, p. 267. Use the worksheet to help students identify situations in which they should/should not change a preplanned schedule.

Activity 8: Encourage students to continue to make weekly schedules of activities until they can do so mentally and without a written schedule.

STUDENT WORKSHEET

HOW MANY TIMES

DIRECTIONS: Here is a list of activities people might do in a week's time. Below the list are ways to mark each activity to show how many times a week a person might do it.

Activities People Do During a Week

EV 1. Brush your teeth.

_____ 2. Go to the dentist.

_____ 3. Watch television.

_____ 4. Go to school.

_____ 5. Eat breakfast.

_____ 6. Clean the house.

_____ 7. Go to work.

_____ 8. Go to church.

_____ 9. Go to a movie.

_____ 10. Go to the store.

_____ 11. Go out with friends.

_____ 12. Do homework.

_____ 13. Attend meetings.

_____ 14. Visit with family members.

_____ 15. Attend to personal needs.

EV = Everyday

1 = One time a week

2 = Two times a week

3 = Three times a week

4 = Four times a week

5 = Five times a week

6 = Six times a week

0 = Every once in a while

STUDENT WORKSHEET

NEXT WEEK

DIRECTIONS: Think about next week. What things do you know you will have to do next week?

Make a list of everything you must do next week.

Things I Have To Do Next Week

1. ____________________

2. ____________________

3. ____________________

4. ____________________

5. ____________________

6. ____________________

7. ____________________

8. ____________________

9. ____________________

10. ____________________

STUDENT WORKSHEET

NEXT WEEK'S SCHEDULE

DIRECTIONS: Plan your schedule for next week. Be sure to use the list you made of things you have to do next week. You also may want to use such things as the television schedule and ideas from your teacher, family, and friends things you might do next week.

Day	Morning	Afternoon	Night
Sunday			
Monday			
Tuesday			
Wednesday			
Thursday			
Friday			
Saturday			

STUDENT WORKSHEET

SCHEDULE CHANGE

DIRECTIONS: Read each event listed below. Think about the schedule you made for the week. Would you change your schedule for any of these things? If you would, write YES next to each thing for which you would change your schedule.

Things That Happened That I Did Not Expect

_____ 1. My dog is very sick and I must take him to the vet.

_____ 2. I woke up sleepy this morning and I am supposed to go to school.

_____ 3. I stayed out late last night and I don't feel like going to work today.

_____ 4. I had a car accident and I hurt my leg. I can hardly walk.

_____ 5. I was not hungry so I decided to skip breakfast.

_____ 6. I was supposed to take my friend to a movie but I would rather work on my car.

_____ 7. I promised I would help my father cut the grass, but I want to watch the ball game.

_____ 8. I told my neighbor I would take care of her children tonight, but I don't feel like going over there.

_____ 9. My favorite television show was changed to Saturday night. I told my little sister I would take her skating Saturday night. She has been excited about going all week.

_____ 10. I woke up feeling very sick today. I have a fever.

LESSON 3: KEEPING SCHEDULES AND MEETING DEADLINES

Activity 1: Discuss with students the importance of keeping schedules and meeting deadlines. Talk about the results when someone does not keep a commitment.

Activity 2: See Student Worksheet: Important/Not Important, p. 298. Use the worksheet to help students identify the times when it is important to keep a scheduled commitment or meet a deadline.

Activity 3: Ask students to make a list of everything they must have finished or every goal they must meet next week. Use the following examples to give them some ideas:

1. I must turn in my report to class next Friday.
2. I must study for a test that I will take next Tuesday.
3. I told my mother I would have the yard raked by Saturday night.

Ask the students to make their own list of deadlines and commitments.

Activity 4: Discuss with students the idea that every goal must be broken up into smaller goals in order to reach it. Give the following example.

GOAL - TURN IN MY REPORT TO CLASS BY FRIDAY.

To get there I must:

1. Read the textbook.
2. Read some other resources about the subject.
3. Outline the report.
4. Write the report.
5. Check my spelling and neatness.
6. Turn in the paper.

Have the students give other examples of things they must do and the small steps they must take in order to reach their larger goals.

Activity 5: Discuss with students that it is important to set priorities. Introduce them to the idea of a "To Do" list. Have each student make a "To Do" list of the things he/she must or would like to do for the rest of the day.

Activity 6: Show students a system for prioritizing their "To Do" lists.

1. Put an A by those things that must be done today.
2. Put a B by things that would be better to do today but it would not be terrible if they were not.
3. Put a C by those things that it would be nice to do today but that could wait until tomorrow.
4. Number in descending order from most to least important all the A's and B's.

Activity 7: See Student Worksheet: How Important?, p. 299. Use the worksheet to help students learn to prioritize their "To Do" lists.

Activity 8: Discuss plans for getting things accomplished. Share with students that the more organized they are, the more time they will have to spend doing the things they want to do.

Activity 9: Encourage students to continue to use daily "To Do" lists.

STUDENT WORKSHEET

IMPORTANT/NOT IMPORTANT

DIRECTIONS: Below are activities people may want you to do. Next to each thing write an "I" if you feel it is important to do and a "U" if you feel this is unimportant.

Activities People May Want You To Do

_____ 1. Get to school on time.

_____ 2. Watch your favorite television show.

_____ 3. Get to bed in time to get enough sleep.

_____ 4. Get some food from the market for supper.

_____ 5. Paint a picture to hang in your room.

_____ 6. Meet a friend at 1:00 as you promised.

_____ 7. Visit a friend when he said, "Come over to my house if you feel like it."

_____ 8. Take a fifteen-minute break and then get back to work.

STUDENT WORKSHEET

HOW IMPORTANT?

DIRECTIONS: Make a list of the activities you have to do for the rest of the day. Also include things you would like to do today. Next, use the chart to decide how important each thing is.

A = I must do this today.
B = It is important to try to do this today, but it could wait until tomorrow.
C = It would be nice to do this today, but I do not have to.

"To Do" List - A Things

"To Do" List - B Things

"To Do" List - C Things

Go back to your list and put a number, starting with 1, next to each activity in each category on you list. You will then know in which order to do things.

Instructor's Final Checklist

DEVELOPING TIME MANAGEMENT SKILLS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

	Fully Accomplished	Not Accomplished	Not Applicable
The student accurately listed three ways of improving time management	[ ]	[ ]	[ ]

EVALUATING AND SELECTING COMPUTER SOFT/HARDWARE OPTIONS FOR SMALL BUSINESS

OBJECTIVES

(1) Given a small business computer software needs analysis worksheet, complete a needs analysis.

(2) Using a computer needs analysis, identify an appropriate software program and hardware.

ATTITUDE/VALUE TO BE DEVELOPED

The student will appreciate the importance of knowing needs when selecting small business computer soft/hardware.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students read materials on using computers in small business.	Samson, et al., *Retail Merchandising*, pp. 507-514. Small Business Administration, "How to Get Started with a Small Business Computer."
Invite a person in computer sales to demonstrate and discuss computer options for small business.	
Invite a small business owner/operator or financial secretary to discuss how the computer is used in the business operation. Have the presenter explain how computer needs were determined.	
Objective 2	
Provide students with current information on small business computer programs and hardware systems.	Computer catalogues and magazines. Hallerman, "Buyer's Guide to Computer Systems," *Family Computing Magazine*, June 1987, pp. 31-38.

Information Sheet, "Can You Use a Minicomputer?" pp. 303-309.

Reifsnyder, "Shopping for Software," Family Computing, June 1987, pp. 46-47.

School instructional supplies and materials catalogues.

SUGGESTED EVALUATION TECHNIQUES

(1) Provide students with a small business computer software needs analysis worksheet (p. 310). Have them complete the needs analysis.

(2) Have students study a completed computer software needs analysis (ENT-049, Evaluation Technique 1) and then identify an appropriate software program and hardware.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Develop or buy computer software to assist with chapter management.

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SBA

Can You Use a Minicomputer?

By Edward C. Kramer
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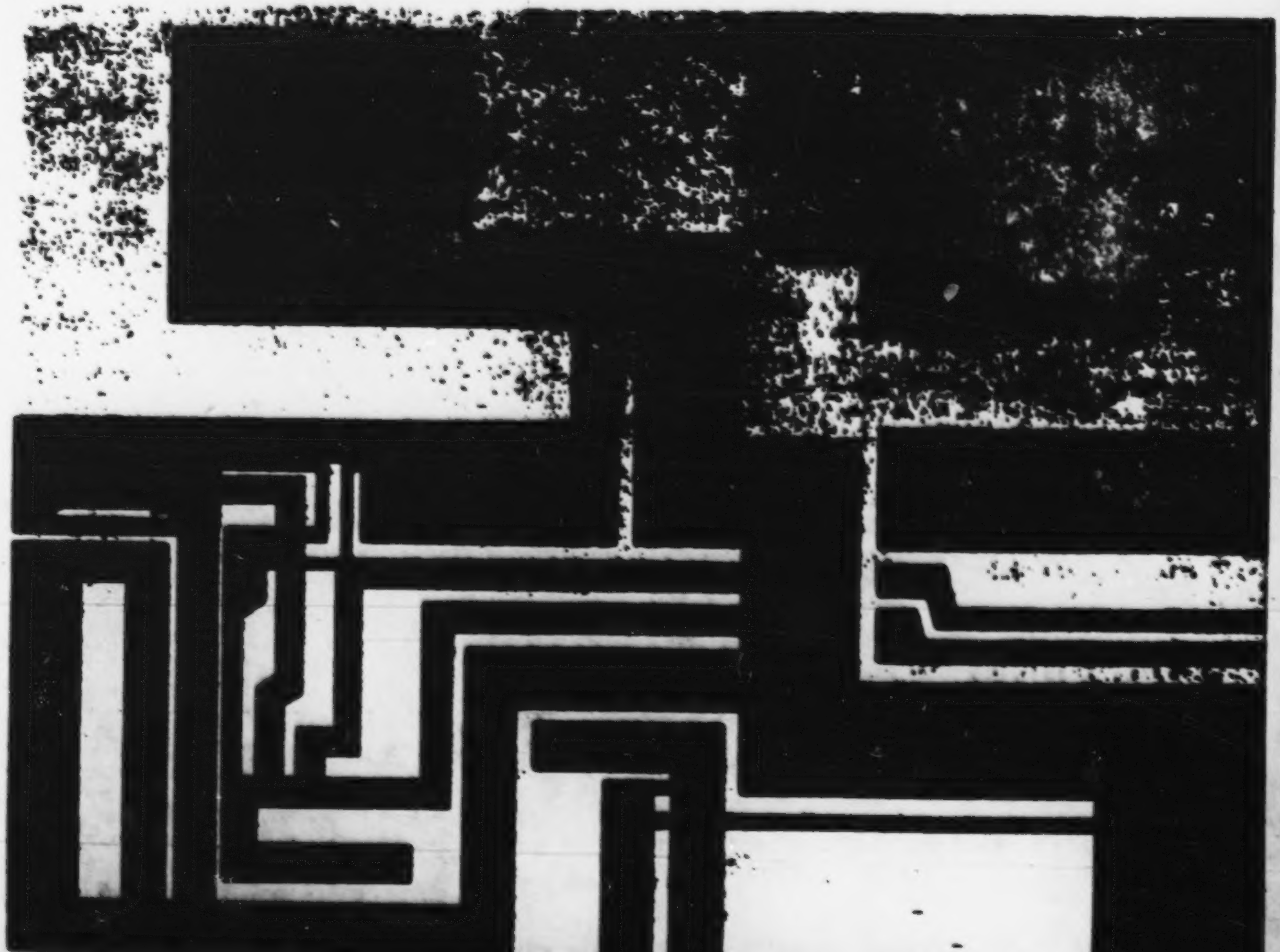
New York, New York



Summary

As businesses grow, their information and record-keeping needs get ever larger and more complex. Even relatively small businesses have begun to turn to electronic data processing to deal with these needs.

This Aid discusses how to go about determining if a minicomputer can help you understand and control the course of your business. It offers tips on how to plan for, what to look for in, and where to find a minicomputer system to meet your needs.

What Is A Minicomputer?

"Minicomputer" is a term for a wide variety of small, relatively inexpensive computers. A minicomputer has these characteristics:

It is a general purpose computer which can be programmed to do a variety of tasks.

It is relatively inexpensive with systems hardware available for under $25,000.

It is small, lightweight and can be used in an office without special air conditioning or power supplies.

It is generally designed so that input can be entered directly into the system. Data, such as a sales order is put into the computer at the same time it is created; there are no intermediate steps such as coding sheets from order blanks and key punching cards from documents.

It can be operated by users who don't have special computer knowledge.

Why Shouldn't You Get a Minicomputer?

There are good reasons for acquiring a minicomputer, but first you should know the reasons why you shouldn't get one:

Don't get a minicomputer to clean up a mess in the office. The mess will only get worse if you attempt to computerize it.

Don't put in a minicomputer because you don't have the right people to do the jobs in your organization. At least initially, the minicomputer will make more demands on your organization.

Don't install a minicomputer with the idea that any information you want will be instantly available. Minicomputers require structured, formal processing that may not produce some information as fast as an informal system could.

While on the subject of "don't," there are several mistaken expectations about computers in general which should be mentioned:

Don't expect the installation of a minicomputer to help define the jobs that must be done. The minicomputer is a **tool** to get those jobs done, but the **jobs** must be **well defined** first.

Don't expect a minicomputer installation to occur like magic. Minicomputer selection and installation will be successful only through top management involvement and **hard work.**

Don't expect any minicomputer system to exactly fit your present methods. If you aren't willing to listen to new ideas on solving problems, you won't be able to install a minicomputer successfully or at a reasonable cost. If you currently use a manual system, first study it. You may be able to streamline it enough to delay going to a minicomputer.

Don't acquire a minicomputer to generate a lot of information you won't use. Growing companies may benefit from structured management information systems, but many owner-managers of small companies already have their fingers on the pulse of their businesses and don't need a formal, electronic system.

On the other hand, the inability of busy owner-managers to maintain a personal management grasp of all that's going on in rapidly growing businesses is probably the most common reason why companies get minicomputers.

Why Should You Get a Minicomputer?

Keeping the "don'ts" in mind, here are some other reasons why companies do acquire minicomputers:

Cost of batch or on-line bureau. Companies with monthly service bureau bills of $1,000 may be able to achieve dramatic cost savings by going to a mini. Replacing a batch oriented service bureau with a mini can also result in improved turnaround time and better control over reliability.

Competitive Situation. Have competitors started getting orders that you used to get, or are they coming closer? Maybe they're getting better information or analysis from their computer, and you should look closely at your situation.

More or better information. Are you unsure which products or sales territories generate the most and profitable sales? Is this information you'd use for making decisions? If you could extract this information from a current manual system, but only after expending considerable time, you may find a mini useful. Such management information may be produced as a by product of the other jobs your mini does.

Customer service. Do you need quick information about delivery status, item availability, price, or credit and find that it is not readily available?

Inventory control. When you buy inventory, do you always buy a little bit more than you think you need—just to be safe? Although you have no major problems, does information on low stocks and turnover get to you a little bit late? Has your inventory dollar investment gone up much more than inflation would justify?

Clerical costs. If you have to employ many clerks to add numbers, check prices, and prepare reports, a mini might reduce costs and improve employee morale. First make sure that clerical tasks are being done efficiently.

Paperwork. Does everybody seem continually swamped with paperwork even though systems are well defined and run smoothly?

At this stage make sure you have a clear understanding of the long and short range goals of your firm, the advantages and disadvantages of all of the alternatives to a mini, the work required, and specifically what you want to accomplish with a computer. Above all, make sure you're comparing the best system you could come up with using your present resources with the minicomputer system you hope to get. It may be possible to improve your existing system to do the job.

What Are the Components of a Minicomputer System?

Anyone who becomes involved with computers is soon deluged with a bewildering number of "buzz words." You'll be hearing about hardware, software, CPU, K, disk, CRT, and the like. What does all of this mean?

Hardward versus software. The tangible electronic circuits and electro-mechanical devices which make up a minicomputer system are called **hardware.** That includes the power supplies, cabinetry, and components which perform three essential functions:

Storing data,

Manipulating data,

Inputting and retrieving data.

The set of programs that control the computer's operation are called **software.** A set of instructions that do a particular task is called a program. Programs are first written language (like FORTRAN, COBAL, BASIC, etc.) that is easy for people to work with. These languages are then converted into language the computer can execute by special compiler or interpreter software.

General definitions of hardware. A minicomputer system comprises:

Component	**Function**
Central Processing Unit (CPU)	The CPU performs logic calculations, manages the flow of data within the computer, and executes program instructions.
Main Memory	This memory is measured in the "K" you'll often hear mentioned—for example 32K (32,000 positions.) It is simply a storage area readily accessible to the CPU.
Mass Storage	This storage is simply "non-main." There are a number of devices available, such as disk, diskette, and magnetic tape.
Input Device(s)	These units are used to enter data into the system for processing. An input device commonly used with minicomputers is a combination keyboard and television-like display screen called a CRT (cathode ray tube).
Output Device(s)	These display the data. The most common output device is a printer.

Software components. Very briefly and simply, the following constitute the software components of a computer system:

Component	Function
Operating System Software	Software which tells the hardware how to run.
Applications Programs	Software written to perform a particular function, such as accounts receivable, payroll, or inventory control "applications."
Compilers and Interpreters	Special software which translates programs into machine language that the CPU can execute.

How Much Does a Minicomputer Cost?

The major cost components of a minicomputer are: 1) main memory, 2) mass storage (disk), 3) peripherals (CRT and printer), 4) operating system software and compilers, 5) applications programs, and 6) the CPU.

There is a direct relationship between cost and performance of minicomputer systems. This relationship allows you to pay for only what you need to perform the job. The wide variety of possible configuations and prices of hardware and software (which can end up costing two or three times the hardware over the long run) makes it extremely important for you to know what is and what is not included in the price. You also need to be wary that you don't buy more or less than you need.

The Minicomputer Marketplace

Very few minicomputer manufacturers provide applications software. A system can be acquired in two ways:

Getting both hardware and software from an independent systems company, a "turnkey" system, or

Buying the software from an independent software company.

Having one company responsible for both hardware and software is the main advantage of the "turnkey" option. You may be able to get a manufacturer to assume total system responsiblity, though most are reluctant. The improtant consideration, in any event, is: Does the hardware, total systems, or software company have a reasonable chance of being around in the future when you need them? Are their business survival prospects good?

Sorting It Out

Too often, computers are bought from the first sales representative through the door. How do you sort out the problems of what to buy and from whom?

If you are a first-time user, look for a turnkey system already in operation which exactly (or almost exactly) suits your needs and fits your business. A system that "generally fits" your industry may not meet your needs.

If you can't find a system which exactly fits, look for one that's close and get a specialist's opinion on how big the job would be to convert it to your needs—or to change your operation a little to fit the system.

Use manufacturers representatives to steer you to turnkey system suppliers. You can also get much valuable information from industry trade associations. Take advantage of all the outside sources of help and information you can—consultants, computer users associations, data processing publications. Especially, talk to people who have been through the experience of installing a computer system.

How to Acquire a Minicomputer

Once you've decided to get a minicomputer system, how do you go about it? Here are the general steps: 1) determine your requirements, 2) prepare a request for proposal, 3) evaluate the minicomputer system proposals.

Determining Your Requirements. As a first step, it is usually desirable to carefully audit your current operations and procedures. Document what you want the system to do:

List the specific outputs you need. What kind of reports and documents do you want? How often? What information do you want in the reports? How many copies of the items do you want? In what format?

List the specific inputs available and in what form they're available. Where possible, define the format of the data which must be processed.

Determine the flow of accounting information from the system to your general ledger: what entries must be made, what will the source of each entry be, and what documentation and audits trials are necessary to support the entries.

Do you want an inquiry feature? (Inquiry is the ability to request information from the minicomputer through a terminal, CRT for example, on an as needed basis.) If you want inquiry, specify what information must be available on request in what form you want answers to your inquires.

Do your best to make an informed guess about what type of system you need and its cost. While this is a technical task, you can make a rough estimate which will help you to eliminate some vendors and systems.

All through this exercise be critical of what you want. Most of us usually want exactly what we've already got. What you've got may be not what you need. Be flexible: be ready to change the kinds of reports you want: be able to accept different forms of the information you need to run your business.

Evaluating Software. If you can find an acceptable, proven software package on the market, you can save many dollars in software development costs and months of development time. Here are the items to look for in evaluating a software package:

Will it require you to change any of your business practices and will it provide the accounting and management information you need?

How easy is it to use?

How easy is it to change (headings, totals, etc.)?

What control and security features does it incorporate?

Who owns the software?

Is it easy to increase the size of files?

How well is it documented? (You should be able to understand the general flow of information: which program does what when.)

If you find a package which fits your system needs and price range, take it. You may still have to do a lot of work, but generally you'll be better off than if you design your own system.

Preparing a Request for Proposal. If you can't find software packages that fit your needs, you should prepare a Request for Proposal (RFP) to send to selected vendors and turnkey houses. The RFP asks them to tell you how they can meet your needs and at what cost.

The form of your RFP depends upon the kind of proposals you are soliciting: turnkey system with custom software, a turnkey system with modified packaged software, hardware only, or hardware and software in separate packages.

Since most first-time users get turnkey systems with custom software, the following guidelines apply to RFP's for this methods:

1. Give a brief description of your company as a whole.

2. Describe the business operation to be computerized.

3. For each applications:

a. Describe how the system is to function.

b. Specifiy the minimum, average, and the maximum number of transaction of each type which must be processed and any monthly, weekly, or daily peaking. Provide a growth factor so you do not outgrow the system's capacity before it is installed.

c. Specify relevant master file information, such as the number of products at each inventory location, the number of sales, the number of customers, or the number of suppliers, and number of employees on the payroll.

d. Describe the input documents or, if input is to be through a terminal, specify the screen format.

e. Describe the layout of all hardcopy accounting, management information and control reports.

f. Describe the frequency and number of copies for each report.

g. Describe required inquiry capability.

h. Include explanatory information regarding special processing requirements; for example, if cost must be accounted for on both average cost and LIFO basis.

4. Desribe the criteria which will be used to evaluate proposals and request a response for each criteria (e.g. maintenance, technical support, training.)

5. Specify which of your requirements must met exactly and which must be met only in substance.

Distinguishing between discretionary and nondiscretionary requirements is important when dealing with software packages.

6. Request a detailed price quotation that includes all charges to meet your needs, including one-time charges for equipment, set up training, applications and systems software, and ongoing charges such as maintenance and technical support. Request financing alternatives such as purchase and direct or third party lease.

Evaluating a Minicomputer System. The most important step in judging a minicomputer system is to visit a few companies using the minicomputer system you think you'll get. Visit these companies without the sales representative for the system, and try to find companies with configuations and applications as close to yours as possible.

Use the following criterial, listed in order of importance, to evaluate a minicomputer system.

1. Software Developer's Past Performance Record	Software developer should have prior experience with similar applications for the same equipment configuation.
2. Commitment of Hardware Vendor	Where will your commission sales rep be after the contract is signed? How many systems engineers does the vendor have in your local area?
3. Hardware Capacity	Does the hardware have adequate processing capability to meet your requirements within acceptable time frames?
4. Quality of Systems Software	The quality of the system software (operating systems and utilities) dramatically affects how difficult the system is to program and use.
5. Systems Documentation	What kind of systems documentation does the vendor provide and how is it updated? Can it be understood at some basic level by the user? Is it designed so other experts can understand how things were done and change them when that becomes necessary?
6. Service and Maintenance Support	When your system breaks down, how long will it take to get it fixed? Who'll do it? Will it be subcontracted? Are there any provisions for backup during down time?
7. Expandability & Compatibilities	What are the technical limits of your system and how close to those limits is your current configuation? Is there software compatibility among the vendor's product lines?
8. Security	What security features will your system have to prevent unauthorized use of the system or program modifications?
9. Financial Stability of Vendors	Satisfy yourself about the financial stability of your vendor.
10. Environmental Requirements	Minicomputers in general do not require special environments such as raised floors, special wiring or special air conditioning. Some do, however, and it pays to be certain.
11. Price	With minicomputers you generally "get what you pay for." Low price by itself should not be a prime evaluation criterion.

Contracting for Minicomputers

The first rule when contracting for a minicomputer is to examine the standard contract supplied by the vendor. The standard contract may not protect your interests. Have your lawyers review the contract and suggest changes that will help you successfully implement the system.

Remember, in dealing with turnkey systems companies, that they have recieved a 10-30% discount on the hardware. You should know this number by securing a hardware quote from the vendor on your configuation. One of the more important points to cover is **when you pay.** You will have to pay for the installation periodically as it is being done. However, the more money held back until the installation is complete, the more power you have to secure compromises in your favor during installation.

The contract should include detailed references to the following:

Description of equipment and software;

Installation responsibilies;

Provisions for additional equipment;

Performance guarantees;

Responsibility for training;

Software rights;

Provisions for default, bankruptcy of vendor, or termination of contract;

Software documentation;

Systems documentation;

Responsibility for freight charges and sales taxes for hardware;

Accepting testing;

Conversion responsibilities (from manual system to computer);

Upgrading privileges and trade-in rights;

Restart (how much time to restart system from failure)

In addition, the contract should include by reference your Request For Proposal and the Vendor's responding proposal.

With a good contract, installation will be easier, but be prepared for the worst. Recognize the importance of the contract and how it forces all parties to plan and agree on objectives.

Implementation

As was suggested before, a successful acquisition of a minicomputer depends quite heavily on the implementation process. Problems are inevitable, but proper planning can help avoid some and mitigate the effects of others. The following are suggested steps in a successful implementation plan.

Set target dates for key phases of the implementation (especially the last date for format changes).

Assign responsibilities and train personnel.

Insist on progress reports.

Monitor and test programs.

Test all applications and the ability of the system to meet all software specifications (especially the ability to make changes in the future).

Prepare the installation site.

Develop new manual procedures which interface with the minicomputer system.

Run parallel operations.

Provide for data and hardware back up.

Establish equipment failure maintanence and security procedures.

Document the system.

One vital point to keep in mind: successful implementation of a minicomputer in a smaller business requires the intense involvement of top management from the initial decision to acquire one through system specification, selection and implementation.

SUGGESTED EVALUATION TECHNIQUE
ENT-049

SMALL BUSINESS COMPUTER NEEDS ANALYSIS WORKSHEET

The key to success in computerizing a small business is to begin by identifying and understanding the needs of the operation.

Identify the needs of a small business by reading each of the computer features in the needs analysis. Check (✓) the features that would be useful for the effective and efficient operation of a small business.

GENERAL LEDGER

____ Invoice summary
____ Working capital report
____ Quarterly tax reports
____ Financial statements
____ Employee register
____ Employee journal
____ Profit and loss statements
____ Profit and loss analysis

ACCOUNTS RECEIVABLE

____ Customer ledger
____ Payments received summary
____ Customer mailing labels
____ Tax information

INVENTORY CONTROL

____ Inventory journal
____ Physical inventory report
____ Quantity change report
____ Reorder report
____ Item sales history
____ Sales analysis

POINT OF SALE

____ Daily sales analysis
____ Lost sales report
____ Cash drawer reconcilation report
____ Sales audit
____ Sales summary

ACCOUNTS PAYABLE

____ Invoice summary
____ Check register
____ General ledger summary
____ Supplier history
____ Automatic invoice summary
____ Supplier checks and vouchers

BILLING

____ Order invoices
____ Billing summary
____ Salesperson summary
____ Shipper labels
____ Shipping summary

ORDER ENTRY

____ Customer orders
____ Backorder notices
____ Production reports
____ Outstanding order reports

PURCHASE ORDERS

____ Individual purchase orders
____ Suppliers list
____ Purchase order report
____ Cash needs analysis

OTHER FEATURES (List Special Needs)

____

____

____

Adapted from Armour Systems, Inc., "System Needs Analysis Workbook."

Instructor's Final Checklist

EVALUATING AND SELECTING COMPUTER SOFT/HARDWARE OPTIONS FOR SMALL BUSINESS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

Note to Instructor: For a one-semester course, use the checklist statement(s) for Objective 1. For a one-year course, use the statement(s) for both objectives.

	Fully Accomplished	Not Accomplished	Not Applicable
Objective 1			
The student completed a small business computer software needs analysis worksheet	☐	☐	☐
Objective 2			
The student identified appropriate software program and hardware based on a computer needs analysis	☐	☐	☐

DEVELOPING EFFECTIVE COMMUNICATION IN SMALL BUSINESS

OBJECTIVES

(1) Without the use of resources, accurately list five elements of effective communication.

(2) Without the use of resources, accurately describe three methods managers can use to promote effective communication.

ATTITUDE/VALUE TO DE DEVELOPED

The student will appreciate the importance of effective communication in small business.

TEACHING STRATEGIES	RESOURCES
Objective 1	
Have students read materials on effective communication.	Bittel, What Every Supervisor Should Know, pp. 175-190. Everard and Burrow, Business Principles and Management, pp. 349-363. Massie and Douglas, Managing: A Contemporary Introduction, pp. 345-366. Nelson, et al., Owning and Operating a Small Business, pp. 101-110. Siropolis, Small Business Management, pp. 175-190.
Provide students with the basic elements of effective communication. Lead a discussion on the importance of these elements to both written and oral communication. Have students complete an activity on effective communication and/or role play situations that illustrate the basic elements of effective communication.	Information Sheet, "The 5 C's of Communication," p. 315. Activity Sheet, "A Thankless Situation," p. 316.

Objective 2

Provide students with ways in which small business owners/operators can facilitate effective communication. Lead a discussion on how effective communication can promote cooperative efforts between employer and employee.

Invite a panel of small business owners/operators to share the methods they use to enhance communication between themselves and their employees.

Information Sheet, "Being an Effective Manager," p. 317.

SUGGESTED EVALUATION TECHNIQUES

(1) Have students accurately list five elements of effective communication.

(2) Have students accurately describe three methods managers can use to promote effective communication.

SUGGESTION TO STUDENT ORGANIZATION FOR RELATED ACTIVITY

Have chapter members submit suggestions of methods for improving chapter communication. Implement the most appropriate ones.

INFORMATION SHEET
ENT-050

THE FIVE C's OF COMMUNICATION

Whether written or spoken a message must have certain basic elements to be effective. These elements, often called the C's of communication, are as follows:

1. Correctness. Check carefully all facts and figures before delivering a message.
2. Completeness. Give the receiver all required information to avoid delays or confusion.
3. Conciseness. Keep each message as short as possible to avoid being misunderstood.
4. Clearness. Word each method as clearly as possible to avoid being misunderstood.
5. Courtesy. Build or retain goodwill by treating the receiver with courtesy and respect.

Taken from Everard and Burrow, Business Principles and Management, p. 355.

ACTIVITY SHEET
ENT-050

A THANKLESS SITUATION

Don Lincoln is a wholesaler of greeting cards, which he sells to small retailers. Many retailers write their orders on a special order form on Saturday morning so that Don will have them on Monday morning. The goods ordered are then delivered by Wednesday or Thursday that same week.

On Monday morning Don received the following request from a retailer: "Dear Don: Rush three dozen Danmark thank-you cards. I need them fast." There was no name, only initials that could not be read. In addition, the customer had used note paper and an envelope without a return address rather than the order form; thus the name of the retail store could not be identified. Furthermore, Danmark does not make thank-you cards; the company specializes in birthday cards.

On Thursday Don received a call from the retail customer. The customer was greatly upset that the three dozen cards had not yet arrived.

Answer the following questions:

1. Which of the C's of Communication did the retailer violate in the note to the wholesaler?
2. If the customer had used the telephone rather than a letter to order the goods, would this situation have been avoided?
3. If, on the phone, Don annoyingly tells the customer that he was not provided enough information, which one of the C's of Communication would Don be violating?

Taken from Everard and Burrow, Business Principles and Management, p. 366.

INFORMATION SHEET
ENT-050

BEING AN EFFECTIVE MANAGER

An effective manager:

1. permits workers to operate in a democratic atmosphere and encourages efficiency.
2. reviews his/her duties to determine the leadership style needed to accomplish them successfully.
3. maintains the proper balance between too much and too little supervision for the type of work being performed.
4. determines whether the business is task-oriented or people-oriented and supervises accordingly.
5. develops a sound and sincere human relations approach that inspires cooperation.

Adapted from Tucker, et al., "So You're Going to be a Vocational Administrator?" Administration and Supervision of Vocational Education Class project, Morehead State University, p. 71.

Instructor's Final Checklist

DEVELOPING EFFECTIVE COMMUNICATION IN SMALL BUSINESS

Performance Level: All items must receive a rating of ACCOMPLISHED. If any items are rated NOT ACCOMPLISHED, the student and the instructor will decide if any learning activities must be repeated.

Note to Instructor: For a one-semester course, use the checklist statement(s) for Objective 1. For a one-year course, use the statement(s) for both objectives.

	Fully Accomplished	Not Accomplished	Not Applicable
Objective 1			
The student accurately listed five elements of effective communication	☐	☐	☐
Objective 2			
The student accurately described three methods managers can use to promote effective communication	☐	☐	☐

Resource Materials

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Kentucky Department of Economic Development
22nd Floor
Capital Plaza Tower
Frankfort, KY 40601

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- Business
- Business Week
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- Entrepreneur, Monthly
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150 West 20th Avenue
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East Texas State University
Commerce, TX 75428

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Cincinnati, OH 45999-0039
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"Information for Business Tax Payers," Bulletin Number 583
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Kentucky Competency Based Vocational Education Modules.
Department of Education
Division of Vocational Education
Frankfort, KY 40601
BK-47A, "Securing and Completing Forms Necessary for Starting a Business"
BK-47B, "Keeping Financial Records for a Business"
ES-26, "The Function of Our Economic System"
ES-27, "How Our Economy Works"
ES-30, "Types of Business Organization"
ES-31, "Going Into Business for Yourself"

Kentucky Competency Based Vocational Education Task Assignment Sheets.
Department of Education
Division of Vocational Education
Frankfort, KY 40601
PA-MD-1, "Making a Market Research Questionnaire"
PA-MD-2, "Conducting a Market Survey"
PA-MD-3, "Making Decisions Based on Marketing Research"
PA-PO-15, "Writing a Plan for Starting a Small Business"

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The University of Texas at Austin
Austin, TX 78712

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Small Business Administration
P.O. Box 30
Denver, CO 80201-0030
"The ABC's of Borrowing"
"Advertising Guidelines for Small Retail Firms"
"Business Plan for Retailers"
"Business Plan for Small Construction Firms"
"Business Plan for Small Manufacturers"
"Business Plan for Small Service Firms"
"Checklist for Going Into Business"
"Checklist for Developing a Training Program"
"Creative Selling: The Competitive Edge"
"Evaluating Franchise Opportunities"
"Feasibility Checklist for Starting a Small Business of Your Own"
"How to Get Started with a Small Business Computer"
"Keeping Records in Small Business"
"Learning About Your Market"
"Locating or Relocating Your Business"
"Market Overseas with U.S. Government Help"
"Marketing Checklist for Small Retailers"
"Plan Your Advertising Budget"
"Simple Breakeven Analysis for Small Stores"
"Sound Cash Management and Borrowing"
"Stock Control for Small Business"
"Thinking About Going Into Business"
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Capital Plaza Tower
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Tempe, AZ 85281

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26 Brighton Street
Belmont, MA 02178

ADDRESSING STUDENTS WITH SPECIAL NEEDS

Some students may need special help in achieving competency. Ideas are presented here to help in identifying those students and in modifying materials and techniques to help them succeed.

Identifying Students with Special Needs

Generally speaking, those students who cannot succeed in the regular vocational education programs without special help are termed "students with special needs" (Vocational Education Act of 1963 and Amendments). Persons most likely to be identified as students with special needs are the academically and economically disadvantaged and the handicapped--the mentally retarded, deaf and hard of hearing, speech impaired, emotionally disturbed, orthopedically (physically) impaired, health impaired, and learning disabled.

The handicapped are further identified as those (1) with a physical or mental disability that substantially impairs one, or more, major life activity-- walking, seeing, hearing, speaking, working, or learning; (2) who have a record or history of such impairment or condition; and (3) who are regarded as having an impairment (Rehabilitation Act of 1973). Women, minorities, the limited English speaking, and others likely to be underemployed or striving for equal opportunity in employment, when meeting the criteria for academic or economic deprivation, are specifically identified in the disadvantaged group to be given special help.

Formulating a Basic Approach to Teaching

Society recognizes the right of every individual to an appropriate education, and the law mandates giving persons with special needs an equal chance. In brief:

1. The Vocational Education Amendments of 1976 give special emphasis to developing and providing programs of vocational education for "those with special educational handicaps" and reserves money to do so.

2. The Education for All Handicapped Children Act of 1975 assures that all handicapped children between the ages of three to twenty-one have available to them a free, appropriate public education which relates to their unique needs and is provided in the least restrictive environment.

3. The Rehabilitation Act of 1973 prohibits discrimination on the basis of handicap in any program or activity receiving federal financial assistance and directs employers to take affirmative action in hiring handicapped people.

4. The Education Amendments of 1972 prohibit discrimination on the basis of sex in educational programs receiving or benefiting from federal financial assistance.

Redirecting Teaching Strategies Usually Used

Many of the strategies usually used with regular students may be redirected or modified and also provide effective learning activities for students with special needs. An explanation of how this may be done follows.

AUDIO-VISUALS (films, filmstrips, slide/tapes, videotapes, and ETV and commercial television programs). The combination of sight and sound provides more effective communication than either sight or sound alone. Audio-visuals may be used to supplement or replace other methods of presenting information. The hearing impaired will require captioning, signing, or a printed script written at the appropriate reading level or presenting only essential details. The visually impaired may glean information from the sound source, but additional explanation will need to be provided for any visual display of information which is not explained adequately by the narration. Some audio-visual presentations, particularly 8mm and 16mm films, may move too fast for the information to be grasped and need to be evaluated with this in mind.

CONTACT WITH WORK ENVIRONMENT. Handicapping conditions, limited finances, geographic isolation, cultural difference, limited communication skills, and social isolation have caused disadvantaged and handicapped persons to have little contact with the world of work. Familiarity with the work setting in which a particular job takes place and relationships with other jobs in the same business are just two examples of areas where special students may require special exposure by means of field trips, spending a day on the job, viewing films, or having additional training sessions.

NOTE: For those with physical impairments, field trips, on-site job observations, and work experience opportunities will be limited to "accessible" businesses in the community. Before deciding where to go, determine whether the facilities are accessible.

DEMONSTRATION AND TRYOUT. Demonstration by teacher, experienced workers, and previously trained students provide reliable role models for learners. Steps, procedures, precautions, physical manipulation, and techniques are imprinted visually in the order and at the time they should occur in task performance. Immediate tryout of the task following the demonstration or an immediate attempt of each step, technique, or procedure as it is demonstrated provides students direct involvement, permits correction and clarification, and promotes retention. Tryout also identifies areas in performance steps, techniques, tools, and work environment where handicapped students need to have modification in order to perform tasks and meet industry standards.

ELIMINATION OF STEREOTYPING. Disadvantaged and handicapped people face more than the sex role stereotyping myths in their quest for employment. The following are just a few examples: "Deaf people are dumb." "The best job for blind people is tuning pianos." "He'll never be able to do that; he's a cripple." "Mr. _____ was no good; so will be his son." "She can never do that; her parents didn't go to college." In addition to overcoming the unfounded assumptions of others, disadvantaged and handicapped often have equal misconceptions about themselves thinking: "I can never do that." "____, who is deaf, does assembly line work; that's what I'll do, too." "I'll never be anybody."

Overcoming stereotyping may begin with using sex-fair instructional materials and media, exploring interests and abilities, exploring two or three nontraditional jobs, or complimenting accomplishments. It may include planning how to reach an educational goal, providing role models (person with like handicap or socioeconomic background who has succeeded), as well as observing persons in nontraditional work roles. It means doing whatever raises aspirations and increases self-worth. It means attempting to eliminate underemployment.

EMPLOYER INVOLVEMENT. Programs with employer input are more practical and in line with the current needs of the job market. Employers who provide input feel a special kinship to the program and get a chance to see the students before meeting them in the job market.

For disadvantaged and handicapped students, employer involvement offers a very special opportunity to remove common misconceptions about their capabilities. It enables employers to help with any modification needed, see students performing tasks, and observe how the students relate to others. It gives students a chance to prove that they can do the work, that they will not endanger themselves or others, and that they will not increase expenses. These are major employer concerns. Both students and teachers should be prepared to provide reassuring answers and evidence to show there is no more risk than with the nonhandicapped.

Employers may be involved by giving class presentations; giving suggestions for program improvement and modifications; conducting mock interviews; and providing work experience, observations and worker interviews, job analysis, etc.

HANDS-ON EXPERIENCES: PROBLEM SOLVING: PERSONAL INVOLVEMENT (work samples, tryout exercises, games, role playing). Being involved in a sample of work through completing a product, performing related paper work, or role playing interpersonal relationships on the job keeps students interested, holds attention to the learning tasks, and injects the realities of working and job performance in the teaching/learning situation. It makes the student feel that the instruction is practical and valuable. Accomplishment means "qualified for work"--a great boost to self-esteem for those who doubt self-worth.

The instructor and other students should avoid taking over when handicapped students are awkward or slow in completing a task. The student cannot master the skill if someone else does it.

ILLUSTRATIONS (pictures, graphs, bulletin boards, transparencies, and other visuals). The disadvantaged, the mentally retarded, and the hearing impaired, particularly, are especially oriented to visual methods of learning. Other students, with the exception of the blind and some visually impaired, will appreciate visual presentation of information to be learned. Student handouts, with the steps to a task illustrated and briefly and simply explained, are especially helpful. Captioning and brief explanations are important supplements. Many illustrations may be adapted for the visually impaired by making them tactile (so that they can be felt). Sometimes enlarged print and bold outlines help.

INTERACTION: INDEPENDENCE. Economic deprivation, geographic isolation, cultural isolation, and restrictions on mobility and social relationships imposed by physical impairments have limited the experiences of the disadvantaged and the handicapped in the community at large. Many have no previous work experience, little observation of the worker's daily routine, and limited social experiences. They have been sheltered at home; absent from the scene; at best, onlookers.

So that they will not continue in this role after vocational training, experiences in the community and involvement with nonhandicapped people and other students are of utmost importance. These students, as well as their families and the working community, need proof that they can function independently and completely. They need to establish contacts who can serve as references to recommend them as competent workers who can relate to others.

Field trips, worker interviews, cooperative work experience, spending a day on the job, and giving talks before civic groups are, therefore, important to the acclimation of disadvantaged and handicapped students to the world of work. Participating on team-work projects with other students; pairing with a slower or faster learning peer; pairing with a nonhandicapped, a nondisadvantaged, or person from another race or culture will help foster understanding and promote learning communication skills. Teaching special units dealing with related communication and social skills will also be necessary; for example: office etiquette, relationships with employer and other employees, daily work expectations which are not direct task performance, telephone skills, appropriate dress and grooming habits, to name a few.

LISTENING (explaining, discussing, reacting orally). Learning by listening is an important tool to the disadvantaged, the visually impaired, speech impaired, learning disabled, and others who "prefer to be told" or "have to be told" rather than read about it.

The visually impaired require identification of familiar sound in the work place to determine location of different work areas, equipment functions, and hazards. The hearing impaired require sight substitutions, such as indicator lights, for critical sounds they cannot hear. They may use lip reading, interpreting, and sound conduction or amplification devices. The retarded need to become accustomed to the sound of the work place so that they can work without being distracted. The speech impaired need to be accorded the right to listen although they may have trouble participating, or not be able to participate orally.

When information is presented for listening, instruction in how to listen (what to listen for) is important. An outline of the information presented, supplemented by visuals, tryout exercises, demonstrations, completion of questions to be answered, analysis of cases or problem situations, or other application activities will enhance use and retention of information heard. Of questions to be answered, analysis of cases or problem situations, or other application activities will enhance use and retention of information heard.

Listening is a vocational skill as well as a learning skill. Workers must be able to receive information by listening as well as to provide information for listening. Most on-the-job instruction is given orally. Explanation must be given to and received from customers, co-workers, and supervisors.

READING HELPS. Being fluent in the technical vocabulary or language of the job and being able to read at the level required by the job is a part of occupational competency. On-the-job reading requirements may vary from the reading of signs to following instructions given in technical manuals. The instruction given in reading, then, for vocational purposes, will depend on the reading skills possessed by the student and the reading requirements on the job. Whether or not a supplemental class in remedial reading is offered, the vocational instructor will find providing reading helps also helps provide job skill.

Braille materials, large print textbooks, magnifying devices, and recordings may be provided for the visually impaired. Materials may be simplified or outlined for the hearing impaired and others with limited language skills. The native language may be supplied above the English for critical information in textbooks used by the limited English-speaking. Familiarity with the setting in which the printed information is applied may be given via field trips, demonstrations, or films to make reading easier and more meaningful.

Students with exceptional reading problems may require the help of a special reading teacher or be enrolled in a remedial reading program. Some schools employ vocational reading teachers to assist vocational students with developing vocational reading skills and doing the reading required in their programs.

RECORDING AND RECORDINGS (tapes, records, radio programs). Information may be presented and gained by listening to recorded information rather than be reading. This strategy will aid the nonreader, the poor reader, the visually impaired, the learning disabled, and others through use as a variation of teaching technique. Recording is also a useful tool for the deaf in notetaking; the recording script may be transcribed into print later by a hearing individual. It will also provide instruction for those who have missed initial classroom presentation of information or who need review. Recordings may be supplemented by slides and pictures.

RELATED MATH. Competency in math, like competency in reading, is more critical to some jobs than to others. Math is best taught in relation to the task of which it is a part. This instsruction should incorporate basic math and remedial math instruction as needed. A cooperative or team-teaching effort with the math teachers or related math instructors in the school will relieve the burden on the vocational instructor. Enough practice and application exercises should be provided to insure retention of the math operations involved. It is helpful to compile a list of the math competencies needed to complete the training program; prepare an assessment test to determine student skills; and plan, in the beginning, a program which the student can follow to attain the basic math competencies prerequisite to the course. If the skills cannot be acquired simultaneously to the job-skill training program, the student should postpone entry into the course until the prerequisite skills are attained. It may be necessary to prepare a special manual and exercises to provide the related math instruction.

REMEDIAL AND RETENTION EXERCISES. Doing learning activities does not necessarily make a student occupationally competent. Performance must be observed, misunderstandings clarified, procedures and techniques corrected, and repetition called for at a future time. Lesson planning should anticipate theory and tasks with which students are likely to have difficulty, include additional practice exercises, and provide alternate approaches to teaching. Repetition for retention should be provided, such as repetition of information in different media presentations or use of different types of application exercise. Review sessions, keeping notebooks, completing work samples, doing live work, and solving cases will also help.

SAFETY. The Occupational Safety and Health Act has increased employer concern for safety and underscored the importance of providing safety instruction along with task performance. It is especially important for the handicapepd in two ways: (1) to overcome employer concern about the handicapped person's ability to take care of himself/herself and not endanger the lives of others; (2) to identify and deal with situations which are hazardous for persons because of particular handicaps.

To meet these needs for safety instruction, the handicapped student not only needs the basic or general safety instruction related to the occupation but safety instruction or special safety provisions needed for a person with his/her particular handicap. An example is the installation of a blinking light to tell a person who is deaf that equipment is running.

NOTE: The Kentucky Deparatment of Labor, Occupational Safety and Health Program, Division of Education and Training, Frankfort, Kentucky 40601, Phone: (502) 564-6895, offers training programs to help vocational instructors teach safety.

SUPPORT SERVICES. Some students will require emotional, social and financial support in order to succeed in the instructional programs. Others will need career counseling and special assistance in becoming employed. Government agencies, special schools, special personnel, and organizations for disadvantaged and handicapped persons can provide this help. The following are examples and should not be considered an all-inclusive list: resource room teachers, rehabilitation counselors, guidance counselors, tutors, remedial teachers, instructors in special schools, occupational therapists, diagnostic specialists, media personnel, handicapped workers, workers who are members of a minority group, social workers, and others who can serve as role models. Survey the community to identify who serves the needs of disadvantaged and handicapped persons in your area and incorporate their assistance in related learning activities.

UNIQUE MODIFICATION (modified equipment, tools, learning aids, changes in work environment, adaptations in course or training program content). Some students require special help in meeting physical job requirements. When considering modification, it is important to concentrate on what the student can do. If at all possible, enable the student to function in the work environment as it is usually found. Employers look favorably on handicapped persons with this kind of preparation.

Rehabilitation centers; organizations and schools for the blind, deaf, dyslexic, disabled, and mentally handicapped; and publishers and manufacturers of special instructional materials, aids, and equipment can offer aid in meeting unique needs. Consultation with special education personnel and rehabilitation counselors is a good starting point. The student should also be asked to make suggestions.

Care should be taken to insure occupational competency. Prospective employers should be shown how the modification operates in the work setting and how it increases efficiency.

The previously described list of strategies is not exhaustive. Others may be added. All will need to be directed toward the occupation for which training is being given, the students enrolled, the availability of instructional materials, and the community. It is also important to remember that what works well for one group of students or a particular student will not necessarily work well for another.